

UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001

FORM 10-Q

QUARTERLY REPORT PURSUANT TO 39 U.S.C. § 3654 AND SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2020



UNITED STATES POSTAL SERVICE
(Exact name of registrant as specified in its charter)

Washington, D.C. (State or other jurisdiction of incorporation or organization)	41-0760000 (I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C. (Address of principal executive offices)	20260 (ZIP Code)
(202) 268-2000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>	Not applicable <input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Not applicable	Not applicable	Not applicable

The number of shares of common stock outstanding as of May 7, 2020: N/A

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED STATES POSTAL SERVICE STATEMENTS OF OPERATIONS (UNAUDITED)

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Revenue:				
Operating revenue	\$ 17,841	\$ 17,492	\$ 37,192	\$ 37,203
Other revenue	2	3	5	9
Total revenue	17,843	17,495	37,197	37,212
Operating expenses:				
Compensation and benefits	11,804	11,685	24,312	24,383
Retirement benefits	1,818	1,470	3,433	2,956
Retiree health benefits	1,225	1,275	2,450	2,550
Workers' compensation	2,997	771	2,795	1,658
Transportation	2,008	2,000	4,405	4,342
Other operating expenses	2,480	2,356	5,016	4,894
Total operating expenses	22,332	19,557	42,411	40,783
Loss from operations	(4,489)	(2,062)	(5,214)	(3,571)
Interest and investment income	33	39	74	73
Interest expense	(59)	(59)	(123)	(121)
Net loss	\$ (4,515)	\$ (2,082)	\$ (5,263)	\$ (3,619)

See accompanying notes to the unaudited financial statements.

**UNITED STATES POSTAL SERVICE
BALANCE SHEETS**

(in millions)

	March 31, 2020	September 30, 2019
	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 8,987	\$ 8,795
Restricted cash	472	366
Receivables, net	1,542	1,461
Supplies, advances and prepayments	237	178
Total current assets	11,238	10,800
Property and equipment, net	14,279	14,352
Operating lease right-of-use assets	4,349	—
Other assets	556	481
Total assets	\$ 30,422	\$ 25,633
Current Liabilities:		
Compensation and benefits	\$ 3,019	\$ 2,571
Retirement benefits	9,979	8,385
Retiree health benefits	49,655	47,205
Workers' compensation	1,343	1,359
Payables and accrued expenses	2,028	2,228
Deferred revenue-prepaid postage	2,135	2,225
Operating lease liabilities	1,173	—
Customer deposit accounts	1,099	1,119
Other current liabilities	1,151	1,190
Total current liabilities	71,582	66,282
Workers' compensation, noncurrent	18,622	17,170
Operating lease liabilities, noncurrent	3,329	—
Employees' accumulated leave, noncurrent	1,951	2,064
Other noncurrent liabilities	733	649
Long-term debt	11,000	11,000
Total liabilities	107,217	97,165
Net Deficiency:		
Capital contributions of the U.S. government	3,132	3,132
Deficit since 1971 reorganization	(79,927)	(74,664)
Total net deficiency	(76,795)	(71,532)
Total liabilities and net deficiency	\$ 30,422	\$ 25,633

See accompanying notes to the unaudited financial statements.

**UNITED STATES POSTAL SERVICE
STATEMENTS OF CHANGES IN NET DEFICIENCY
(UNAUDITED)**

For the three and six months ended March 31, 2019

<i>(in millions)</i>	Capital Contributions of U.S. Government	Accumulated Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2018	\$ 3,132	\$ (65,769)	\$ (62,637)
Cumulative effect adjustments for adoption of new accounting pronouncements	—	(82)	(82)
Net loss	—	(1,537)	(1,537)
Balance, December 31, 2018	\$ 3,132	\$ (67,388)	\$ (64,256)
Net loss	—	(2,082)	(2,082)
Balance, March 31, 2019	\$ 3,132	\$ (69,470)	\$ (66,338)

See accompanying notes to the unaudited financial statements.

For the three and six months ended March 31, 2020

<i>(in millions)</i>	Capital Contributions of U.S. Government	Accumulated Deficit Since Reorganization	Total Net Deficiency
Balance, September 30, 2019	\$ 3,132	\$ (74,664)	\$ (71,532)
Net loss	—	(748)	(748)
Balance, December 31, 2019	\$ 3,132	\$ (75,412)	\$ (72,280)
Net loss	—	(4,515)	(4,515)
Balance, March 31, 2020	\$ 3,132	\$ (79,927)	\$ (76,795)

See accompanying notes to the unaudited financial statements.

**UNITED STATES POSTAL SERVICE
STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Six Months Ended March 31,	
	2020	2019
<i>(in millions)</i>		
Cash flows from operating activities:		
Net loss	\$ (5,263)	\$ (3,619)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	854	841
Loss (gain) on disposals of property and equipment, net	4	(1)
Lease expense	15	—
Increase in other assets	(75)	(12)
Increase in noncurrent workers' compensation	1,452	292
(Decrease) increase in noncurrent deferred appropriations and other revenue	(3)	15
Net lease liabilities	118	—
(Decrease) increase in other noncurrent liabilities	(51)	33
Changes in current assets and liabilities:		
Receivables, net	(81)	(362)
Other current assets	(59)	(48)
Retirement benefits	1,594	1,201
Retiree health benefits	2,450	2,550
Payables, accrued expenses and other	192	75
Deferred revenue-prepaid postage and other deferred revenue	(104)	219
Net cash provided by operating activities	1,043	1,184
Cash flows from investing activities:		
Purchases of property and equipment	(741)	(659)
Proceeds from sales of property and equipment	17	18
Net cash used in investing activities	(724)	(641)
Cash flows from financing activities:		
Issuance of notes payable	—	24,300
Payments on notes payable	—	(26,500)
Payments on finance lease obligations and other	(21)	(25)
Net cash used in financing activities	(21)	(2,225)
Net increase (decrease) in cash, cash equivalents & restricted cash	298	(1,682)
Cash, cash equivalents & restricted cash - beginning of period	9,161	10,336
Cash, cash equivalents & restricted cash - end of period	\$ 9,459	\$ 8,654
Supplemental cash flow disclosures:		
Cash paid for interest	\$ 118	\$ 121

See accompanying notes to the unaudited financial statements.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

Interim Financial Statements

The accompanying unaudited interim financial statements of the United States Postal Service (the "Postal Service") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of the U.S. Securities and Exchange Commission Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2019, included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 14, 2019, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to fiscal years beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2020 and 2019.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of March 31, 2020, the results of operations for the three and six months ended March 31, 2020, and 2019, the changes in net deficiency for the six months ended March 31, 2020, and 2019, and cash flows for the six months ended March 31, 2020, and 2019. Operating results for the three and six months ended March 31, 2020, are not necessarily indicative of the results that may be expected for all of 2020. Mail volume and revenue are historically greatest in the first quarter of the year, which includes the holiday mailing season.

Reclassifications

Certain reclassifications have been made to the financial statements for the three and six months ended March 31, 2019, as well as subsequent footnotes, to conform to the current period presentation. Specifically, certain retirement benefit expenses have been reclassified from *Compensation and benefits* and separately identified as *Retirement benefits* within *Operating expenses* in the accompanying unaudited *Statements of Operations*. In addition, unfunded retirement benefits amortization expenses associated with the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS") have been reclassified from *Unfunded retirement benefits amortization* to *Retirement benefits* within *Operating expenses* in the accompanying unaudited *Statements of Operations*.

The liabilities associated with these retirement benefits have also been reclassified from *Compensation and benefits* and separately identified as *Retirement benefits* within *Current liabilities* in the balance sheets. In addition, the unfunded retirement benefits liabilities associated with CSRS and FERS have been reclassified from *Unfunded retirement benefits* to *Retirement benefits* within *Current liabilities* in the balance sheets. Corresponding reclassifications have been made within *Changes in current assets and liabilities* in the accompanying unaudited *Statements of Cash Flows*.

These reclassifications had no effect on previously reported total operating expenses, loss from operations or net loss. See *Note 9 - Retirement Plans* for further disclosure pertaining to retirement benefits.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-02 *Leases*, which has since been codified in Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842"). The new standard requires an entity to record most leases in its balance sheets but continue to recognize expenses in its statements of operations in a manner similar to current accounting practices. The new standard requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term. Expenses associated with operating leases are recognized on a straight-line basis and include embedded interest and amortization components. The Postal Service recognizes expenses associated with operating leases as rent expense or transportation expense within *Other operating expenses* or *Transportation*, respectively, in the statements of operations. The Postal Service recognizes expenses associated with finance leases (formerly capital leases under previous guidance) with both

interest and amortization expenses and presents these separately in the statements of operations. As such, finance leases generally have higher expenses in the earlier periods of the lease term.

The Postal Service adopted ASC 842 for its 2020 fiscal year (beginning October 1, 2019). In connection with the adoption of ASC 842, the Postal Service has made necessary changes to relevant policies, processes, information systems and internal controls. For transition purposes, the Postal Service has elected the option not to restate comparative financial statements under the modified retrospective transition model. This option allows the application of the standard to all leases in effect as of the effective date (October 1, 2019) or commencing thereafter, without any restatement impact on the comparative financial statement balances. Accordingly, all comparative financial statements enclosed herein are presented in accordance with the previous ASC 840, *Leases* ("ASC 840"), with related ASC 840 disclosures provided in *Note 12 - Leases*.

In implementing ASC 842, the Postal Service has elected the package of practical expedients which permits carrying forward historical accounting positions around lease identification, lease classification and initial direct costs for all leases commencing prior to October 1, 2019. The Postal Service has also made a policy election to not separate the lease and non-lease components for all types of underlying assets and to exclude its short-term leases from the ROU asset and lease liability balances.

The Postal Service adopted ASC 842 on October 1, 2019. The implementation of ASC 842 resulted in an opening balance sheet adjustment, as of October 1, 2019, to recognize \$4.4 billion in right-of-use assets and lease liabilities relating to operating leases as follows:

<i>(in millions)</i>	As reported on September 30, 2019		Adjustments		Balance on October 1, 2019	
CONDENSED BALANCE SHEETS:						
Operating lease right-of-use assets	\$	—	\$	4,364	\$	4,364
Total assets	\$	25,633	\$	4,364	\$	29,997
Operating lease liabilities	\$	—	\$	1,129	\$	1,129
Other current liabilities		1,190		(20)		1,170
Operating lease liabilities, noncurrent		—		3,255		3,255
Total liabilities and net deficiency	\$	25,633	\$	4,364	\$	29,997

The implementation of ASC 842 did not have a material impact on the Postal Service's *Statement of Operations* or *Statement of Cash Flows* and did not have any impact on the Postal Service's *Statement of Changes in Net Deficiency*. See *Note 12 - Leases* and *Item 4. Controls and Procedures* for additional disclosures pertaining to ASC 842.

Accounting Pronouncements Issued but not Adopted

Accounting Standards Update 2016-13 Financial Instruments - Credit Losses

In June 2016, the FASB issued Accounting Standards Update 2016-13 *Financial Instruments - Credit Losses*, which has since been codified in ASC 326, *Financial Instruments - Credit Losses* ("ASC 326"). The new standard requires entities to measure expected credit losses on financial instruments and other commitments by replacing the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The Postal Service intends to adopt ASC 326 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The standard is applicable to the Postal Service's valuation of its receivables. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements and related disclosures.

Accounting Standards Update 2018-13 Fair Value Measurement

In August 2018, the FASB issued Accounting Standards Update 2018-13 *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which has since been codified in ASC 820, *Fair Value Measurement* ("ASC 820"). The new standard modifies the disclosure requirements for fair value measurements by adding, modifying or removing certain disclosures.

The Postal Service intends to adopt ASC 820 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The standard is applicable to the Postal Service's fair value measurements of its revenue forgone installment receivable and its long-term debt, as described further in *Note 13 - Fair Value Measurement*. Under ASC 820, certain disclosures are required to be applied on a retrospective basis and others on a prospective basis. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements and related disclosures.

Accounting Standards Update 2018-15 Intangibles - Goodwill and Other - Internal-Use Software

In August 2018, the FASB issued Accounting Standards Update 2018-15 *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*, which has since been codified in ASC Subtopic 350-40, *Intangibles - Goodwill and Other - Internal-Use Software* ("ASC 350-40"). This is an update to a standard the FASB issued in April 2015 for entities evaluating the accounting for fees paid by a customer in a cloud computing (hosting) arrangement by providing guidance for determining when such arrangement includes a software license.

If a cloud computing arrangement includes a license for internal-use software, then the software license is accounted for by the customer in accordance with ASC 350-40. This generally means that an intangible asset is recognized for the software license and, to the extent that the payments attributable to the software license are made over time, a liability also is recognized. If a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract. This generally means that the fees associated with the hosting element (service) of the arrangement are expensed as incurred.

The Postal Service intends to adopt ASC 350-40 for its 2021 fiscal year (beginning October 1, 2020) and the quarters therein. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements and related disclosures.

NOTE 3 - LIQUIDITY

The Postal Service's liquidity consists of unrestricted cash and cash equivalents plus available borrowing capacity.

Cash

The Postal Service generates its cash almost entirely through the sale of postal products and services. As of March 31, 2020, and September 30, 2019, the Postal Service held unrestricted cash and cash equivalents of \$9.0 billion and \$8.8 billion, respectively. See *Note 6 - Cash, Cash Equivalents and Restricted Cash* for further disclosures pertaining to cash.

The *Postal Reorganization Act*, as amended by Public Laws 101-227 and 109-435 (the "PRA"), authorizes the Postal Service to raise cash through the issuance of debt obligations. The Postal Service is limited by statute to annual net increases in debt of \$3.0 billion calculated as of the end of each fiscal year, and total debt of \$15.0 billion. In 1974, the Postal Service began issuing debt through individual debt agreements to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury.

COVID-19 Considerations

In March 2020, the World Health Organization declared a novel strain of coronavirus ("COVID-19") a global pandemic, and the virus has since spread throughout the U.S. Given its mandate to provide universal postal services to the nation, the Postal Service provides an essential service as part of the nation's critical infrastructure and has continued to process and deliver mail and packages during the pandemic.

The Postal Service expects the COVID-19 pandemic to have a material effect on its financial condition, results of operations and liquidity. Quarantines, shelter-in-place orders and travel and logistics restrictions in connection with the outbreak have affected retail and commercial customers, as well as suppliers and mail service providers. The

Postal Service relies on the sale of postal products and services to fund its operations, and these sales declined significantly in late March 2020 as a result of the pandemic, and the impact has continued to worsen since then. The sudden drop in mail volumes, the Postal Service's most profitable revenue stream, has been significant and has continued to decline.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the "CARES Act"). Notwithstanding the \$15.0 billion statutory debt limit and the \$3.0 billion limit on annual borrowing, the CARES Act allows the Postal Service to borrow up to an additional \$10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at the request of the Postal Service, upon terms and conditions mutually agreed upon. However, the Postal Service has no assurance that the U.S. Treasury will agree to provide such financing upon favorable terms.

Given these COVID-19 considerations, the Postal Service may require an additional injection of liquidity, provided by either the U.S. government or other sources. While the COVID-19 disruption is expected to be temporary, its duration remains uncertain, and the Postal Service expects that its liquidity may continue to worsen if the nation experiences a prolonged period of disruption.

As the Postal Service can borrow the \$10.0 billion from the U.S. Treasury as provided by the CARES Act, and prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, if necessary and as has been done in the past, it expects that it will have sufficient liquidity to continue operating through at least May 2021.

Subsequent Events

The CARES Act offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, the Postal Service began deferring these payments in April 2020, and intends to continue the deferral for the remainder of calendar year 2020 for an estimated total deferral amount of approximately \$1.6 billion. One half of these deferred payments would be due by December 31, 2021, and the other half by December 31, 2022.

On April 3, 2020, the Postal Service drew \$3.4 billion on a revolving credit facility with the FFB that survived the expiration of the Note Purchase Agreement ("NPA"). In order to comply with the annual net increase limit, the Postal Service must repay \$400 million from this credit facility by September 30, 2020. Given that the credit facility has a maximum term of up to one year, the Postal Service must repay any outstanding balance of the credit facility by April 2, 2021. The credit facility's interest rate was determined by the U.S. Treasury based on the market rates of similar instruments as of the day of the funding request.

Debt

As of both March 31, 2020, and September 30, 2019, the Postal Service had a combination of fixed-rate and floating-rate notes outstanding with various maturities totaling \$11.0 billion. As of March 31, 2020, the Postal Service's statutory borrowing capacity was \$4.0 billion, of which \$1.0 billion would require repayment by September 30, 2020, to comply with the annual debt net increase limit.

In 1999, the Postal Service entered into the NPA with the FFB to establish standardized procedures for issuing debt. Under the NPA, the Postal Service was able to issue a series of notes and revolving credit line facilities with established terms and conditions by providing two days prior notice. These note arrangements and credit line facilities provided the flexibility to borrow short or long-term, using floating or fixed-rate instruments.

The NPA was extended each year through September 30, 2018, and in shorter increments between that date and August 31, 2019, at which time the NPA expired. This expiration did not affect the terms of any of the Postal Service's outstanding debt as of March 31, 2020, all of which was issued under the NPA. As a contractual matter, the FFB continued to lend to the Postal Service under each commitment and line of credit until it expired. If the Postal Service is unable to renew or replace the NPA with the FFB, it has no assurance that it could obtain alternative debt financing on comparable terms.

Liquidity Concerns

The Postal Service is constrained by laws and regulations, including the *Postal Accountability and Enhancement Act* ("PAEA"), which restrict revenue sources and mandate certain expenses.

The Postal Service is required, either by law or by union contract, to participate in U.S. government pension and health and benefits programs for employees and retirees, including the Federal Employees Health Benefit ("FEHB") program, CSRS and FERS, which the Office of Personnel Management ("OPM") administers. Statutorily mandated expenses include amortization payments to provide full funding of retirement benefits under CSRS and FERS, as well as FERS normal costs, described in greater detail below and in *Note 9 - Retirement Plans*. Additionally, the PAEA established the Postal Service Retiree Health Benefits Fund ("PSRHBF") and mandated certain obligations for paying normal costs, the present value of the estimated retiree health benefits attributable to active employees' current year of service, and amortization payments for full prefunding of retiree health benefits. These prefunding obligations, described in greater detail below and in *Note 10 - Health Benefits Plans*, are unlike expenses imposed on most other federal entities or private-sector businesses that offer such benefits.

The Postal Service reported operating expenses of approximately \$80 billion in 2019 and has incurred cumulative net losses of \$83.1 billion from 2007 through March 31, 2020. Notwithstanding the challenges resulting from the COVID-19 pandemic, absent legislative and regulatory change, the Postal Service projects continuing annual net losses in the future. As a result of these losses and its liquidity concerns, the Postal Service may not have sufficient liquidity to meet all of its existing legal obligations when due while also reducing its debt and making the critical infrastructure investments that have been deferred in recent years.

In the event that circumstances leave the Postal Service with insufficient liquidity, it would likely be required to implement additional contingency plans to ensure that its primary mission is fulfilled and that mail deliveries continue. These measures include additional borrowings available under the *CARES Act*, and prioritizing payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, as has been done in the past.

Business Model Challenges and Constraints

Market-Dominant services, which accounted for approximately 66% of the Postal Service's annual operating revenues in 2019, are currently subject to a price cap as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"). However, the Postal Service's costs are not similarly constrained. A large portion of its cost structure cannot be altered expeditiously due to the Postal Service's universal service obligation. Further, the number of delivery points continues to grow by approximately one million per year, which drives up delivery costs. When combined with the impact of lower mail volume, the average number of pieces delivered per delivery point per day has decreased from approximately 5.5 pieces in 2007 to 3.4 pieces in 2019, a decline of approximately 39%, and has continued to decline in 2020.

Many employee and retiree benefit costs are mandated by law and cannot be altered without legislative change. Under current law, the Postal Service is generally unable to increase prices sufficiently to offset increased costs, and is likewise constrained by law from reducing many of its costs or from pursuing many alternate sources of revenue.

Aside from its universal service obligation, a significant factor contributing to Postal Service losses is the ongoing decline in the volume of Market-Dominant products and services, and those declines are being exacerbated by the COVID-19 pandemic. Specifically, declines in *First-Class Mail* are largely the result of changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which have taken place over the last decade and are expected to continue. *Marketing Mail* volume has generally been challenged by commercial mailers' increasing use of digital and mobile advertising, and more recently by the COVID-19 pandemic, although this class has benefited from strong political and election mail volumes, particularly in the second half of 2018 and the first quarter of 2019.

The Postal Service's Shipping and Packages category has historically provided revenue and volume growth as a result of its successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and Sunday delivery as well as end-to-end markets. This service category is subject to intense competition which significantly impacts both revenue and volume. Certain major customers of the Postal Service had begun diverting

volume from the Postal Service's network by in-sourcing last-mile delivery. Competitors in the package delivery market are aggressively pricing their products and services in order to fill their networks and grow package density. However, as a result of the temporary surge in e-commerce growth driven by the COVID-19 pandemic, some of these customers increased their volume to the Postal Service's network during March 2020 due to their delivery capacity constraints.

Because the Postal Service provides its services primarily through its employees, its costs are heavily concentrated in wages and benefits for both current employees and retirees. These costs are significantly impacted by contractual wage increases, employee health benefit premium increases, and statutorily mandated retirement and workers' compensation programs. Some of these costs have historically increased at a higher rate than inflation.

Past Due Obligations

The following table presents the total expenses accrued but unpaid by the Postal Service as of September 30, 2019, related to retiree health benefits, CSRS and FERS and the fiscal years in which the accruals were recorded:

<i>(in millions)</i>	2019	2018	2017	2012 to 2016	Total
PSRHBF prefunding fixed amount ¹	\$ —	\$ —	\$ —	\$ 33,900	\$ 33,900
PSRHBF unfunded benefits amortization	789	815	955	—	2,559
Normal cost of retiree health benefits	3,775	3,666	3,305	—	10,746
CSRS unfunded retirement benefits amortization	1,617	1,440	1,741	—	4,798
FERS unfunded retirement benefits amortization ²	1,060	958	917	495	3,430
Total expenses accrued but unpaid	\$ 7,241	\$ 6,879	\$ 6,918	\$ 34,395	\$ 55,433

¹ The 2012 to 2016 period amount includes \$5.8 billion for 2016, \$5.7 billion for 2015, \$5.7 billion for 2014, \$5.6 billion for 2013 and \$11.1 billion for 2012.

² The 2012 to 2016 period amount includes \$247.6 million for 2016, \$240.9 million for 2015 and \$6.7 million for 2014.

Mitigating Circumstances

The Postal Service continues to pursue strategies within its control to increase operational efficiency and improve liquidity. The Postal Service has managed capital in recent years by spending what it believed was essential to maintain its existing facilities and service levels, to ensure employee safety and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade its facilities, fleet of vehicles and processing equipment in order to remain operationally viable. Aggressive management of the business operations, as well as an additional injection of liquidity, provided by either the U.S. government or other sources, and legislative and regulatory reforms that will enable it to increase revenue and reduce costs, will all be necessary to restore the Postal Service to financial health.

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue in 2019 of approximately \$71 billion, a financially sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, and in the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative and regulatory changes that are required to restore its financial stability.

NOTE 4 - REVENUE RECOGNITION

The Postal Service generates the majority of its revenue from contracts associated with the processing and delivery of different types of mail and packages, both domestically and internationally, which generally occur over a relatively short period of time (e.g., several days).

Disaggregation of Revenue

The following table summarizes the Postal Service's disaggregated operating revenue for the three and six months ended March 31, 2020, and 2019, by each service category:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019*	2020	2019*
Operating revenue:				
First-Class Mail	\$ 6,375	\$ 6,286	\$ 12,847	\$ 12,926
Marketing Mail	3,739	3,833	8,150	8,497
Shipping and Packages	5,821	5,435	12,427	11,895
International	609	595	1,313	1,308
Periodicals	265	298	552	609
Other	1,032	1,045	1,903	1,968
Total operating revenue	\$ 17,841	\$ 17,492	\$ 37,192	\$ 37,203
* Prior period amounts for certain service categories include reclassifications of amounts amongst service categories to conform to current period presentation. These reclassifications are immaterial for each affected category, and had no effect on total operating revenue for the period.				

Satisfaction of Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

First-Class Mail, *Marketing Mail*, *Shipping and Packages*, *International Mail* and *Periodicals* are categorized as Mailing and Shipping services for purposes of satisfying performance obligations. The Postal Service recognizes revenue for Mailing and Shipping services as it fulfills its obligation to process and deliver each mailpiece and the customer mail sender/recipient receives and consumes the benefits of these services.

Other revenue includes *PO Box* services, Return Receipts, Insurance, Other Ancillary Services, Shipping and Mailing Supplies, Collect on Delivery, *Registered Mail*, Stamped Envelopes and Cards, Money Orders and other goods and services. The Postal Service recognizes revenue for the majority of these services over time as the customer receives and consumes the benefits of the service. The revenue for a small portion of certain goods or services in this service category is recognized at a point in time when the goods or services are provided to the customer.

The vast majority of the Postal Service's contracts include only one performance obligation. However, if a contract is separated into more than one performance obligation, the total transaction price for each performance obligation is allocated in an amount based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. The majority of the goods or services sold by the Postal Service have observable stand-alone sales prices. Further, payment for the majority of the goods and services is received up front.

If the Postal Service were unable to complete delivery to the destination point, another entity would not need to re-perform the entire portion of delivery already performed by the Postal Service. Accordingly, control from the Postal Service to the customer transfers over time for the vast majority of services the Postal Service offers, and revenue is recognized based on the progress of the completion of the performance obligations.

Variable Consideration

The Postal Service offers certain contracts to its customers that contain various types of customer incentives or other provisions that can either increase or decrease the transaction price. Customer incentives include discounts, money back guarantees, rebates, refunds or incentive payments. The other provisions include performance

penalties. The Postal Service uses the expected value approach to estimate variable consideration to which it expects to be entitled.

Contract Modifications

The Postal Service considers contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications do not add distinct services; they are typically used to change the prices that the Postal Service charges its customer for existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

Principal vs. Agent Consideration

The Postal Service utilizes third parties to assist with the transportation of mailpieces between different points as part of the delivery process. Based on its evaluation of the transfer of control model, the Postal Service has determined that it acts as the principal rather than the agent within these arrangements.

Contract Liabilities

The vast majority of the Postal Service's contract liabilities consist of *Deferred revenue-prepaid postage* and prepaid *PO Box* and Caller Service fees. *Deferred revenue-prepaid postage* is an estimate of postage that has been sold, but not yet used by customers. The Postal Service recognizes revenue over time as the Postal Service delivers mailpieces. Because payments for postage are collected in advance of the satisfaction of related performance obligations, the Postal Service defers and reports this unearned revenue as *Deferred revenue-prepaid postage* in its balance sheet. Stamp sales and metered postage account for the majority of *Deferred revenue-prepaid postage*. The liability also includes an estimate for mail that is in-transit within the Postal Service network.

The prepaid *PO Box* and Caller Service fees consist of the payments received from customers for *PO Box* fees at the beginning of their contracts. The Postal Service defers and reflects this unearned revenue as prepaid *PO Box* and Caller Service fees within *Other current liabilities* in the accompanying *Balance Sheets*. Revenue is recognized over time as customers use the *PO Box* and Caller Services over the terms of their contracts.

The following table presents the balances of the Postal Service's contract liabilities, including *Deferred revenue-prepaid postage* and prepaid *PO Box* and Caller Service fees, as of March 31, 2020, and September 30, 2019, respectively:

<i>(in millions)</i>	March 31, 2020	September 30, 2019
Deferred revenue-prepaid postage:		
Forever stamps	\$ 1,243	\$ 1,238
Mail-in-transit	524	555
Metered postage	247	313
Other prepaid postage	121	119
Total deferred revenue-prepaid postage	2,135	2,225
Prepaid PO Box and Caller Service fees	465	461
Total deferred revenue	\$ 2,600	\$ 2,686

The following table provides details of revenue recognized for the six months ended March 31, 2020, that was reported in the Postal Service's contract liabilities for deferred revenue as of September 30, 2019:

<i>(in millions)</i>	Six Months Ended March 31, 2020
Revenue recognized in the period from deferred revenue:	
Forever stamps	\$ 727
Mail-in-transit	555
Metered postage	313
Other prepaid postage	73
PO Box and Caller Service fees	375

NOTE 5 - RELATED PARTIES

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities, which are considered related parties for accounting purposes.

The following table presents related-party assets and liabilities as of March 31, 2020, and September 30, 2019:

<i>(in millions)</i>	March 31, 2020	September 30, 2019
Related-party assets:		
Receivables and advances ¹	\$ 232	\$ 25
Operating lease right-of-use assets ²	141	—
Carrying amount of revenue forgone installment receivable ³	476	466
Related-party liabilities:		
Operating lease liabilities ⁴	\$ 141	\$ —
Other current liabilities ⁵	61,568	57,518
Long-term debt	11,000	11,000
Other noncurrent liabilities ⁶	18,638	17,187

¹ Current portion within *Receivables, net* and noncurrent portion within *Other assets* in the accompanying *Balance Sheets*.
² Amount includes right-of-use assets for operating leases with the General Services Administration ("GSA").
³ Included within *Other assets* in the accompanying *Balance Sheets*. See further discussion in *Note 13 - Fair Value Measurement*.
⁴ Amount includes liabilities for operating leases with the GSA.
⁵ Amounts include CSRS, FERS, PSRHBf and current workers' compensation obligations, as well as payables to other agencies.
⁶ Amounts include noncurrent workers' compensation obligations.

The following table presents related-party revenue and expenses for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Related-party operating revenue ¹	\$ 539	\$ 249	\$ 808	\$ 486
Related-party operating expenses ²	\$ 4,581	\$ 4,238	\$ 8,872	\$ 8,478
Related-party interest income ³	\$ 33	\$ 38	\$ 74	\$ 72
Related-party interest expense ⁴	\$ 56	\$ 56	\$ 117	\$ 113

¹ Included within *Operating revenue* in the accompanying unaudited *Statements of Operations*.
² Included within *Operating expenses* in the accompanying unaudited *Statements of Operations*.
³ Represents interest imputed on the revenue forgone installment receivable, as well as interest generated on U.S. Treasury instruments and other cash equivalents held with the Federal Reserve Bank of New York. Included within *Interest and investment income* in the accompanying unaudited *Statements of Operations*.
⁴ Incurred on debt issued to the FFB, and included within *Interest expense* in the accompanying unaudited *Statements of Operations*.

NOTE 6 - CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of *Cash and cash equivalents* and *Restricted cash* reported in the balance sheets as of March 31, 2020, and 2019, respectively, and as of September 30, 2019, and 2018, respectively (to disclose the opening balances), that sum to the totals of the same such amounts presented in the accompanying unaudited *Statements of Cash Flows* for the six months ended March 31, 2020, and 2019:

(in millions)	March 31,		September 30,	
	2020	2019	2019	2018
Cash and cash equivalents	\$ 8,987	\$ 8,108	\$ 8,795	\$ 10,061
Restricted cash	472	546	366	275
Total cash, cash equivalents and restricted cash	\$ 9,459	\$ 8,654	\$ 9,161	\$ 10,336

Restricted cash represents Postal Service cash that is not available for general use. This includes cash originated from forfeitures or seizures related to consumer fraud or other criminal activity related to the mail and either held for third-party beneficiaries or awaiting disposition. *Restricted cash* also includes funds for use in restricted activities such as congressional appropriation for Postal Service obligations to the PRC and the United States Postal Service Office of Inspector General, or that are otherwise restricted.

The Postal Service holds its *Cash and cash equivalents* and *Restricted cash* with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Department of the Treasury.

NOTE 7 - PROPERTY AND EQUIPMENT, NET

Assets within *Property and equipment, net* in the accompanying *Balance Sheets* are recorded at cost, which includes the interest on borrowings used to finance construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three and six months ended March 31, 2020, and 2019, was not significant. Fixed assets are depreciated over estimated useful lives ranging from 3 to 40 years using the straight-line method.

For the three months ended March 31, 2020, and 2019, depreciation and amortization expense was \$423 million and \$424 million, respectively. For the six months ended March 31, 2020, and 2019, depreciation and amortization expense was \$854 million and \$841 million, respectively. These items are included within *Other operating expenses* in the accompanying unaudited *Statements of Operations*.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Collective Bargaining Agreements

On January 22, 2020, the Postal Service reached a tentative agreement with the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") on a new three-year collective bargaining agreement, which the union membership ratified on April 7, 2020. The new contract went into effect on April 25, 2020, and will expire on September 20, 2022.

On March 10, 2020, a three-member arbitration panel reached a decision in the Postal Service's legally mandated binding interest arbitration process with the American Postal Workers Union, AFL-CIO ("APWU"), which established the terms of a new collective bargaining agreement. The new contract went into effect on March 10, 2020, and will expire on September 20, 2021.

In September 2019, the Postal Service agreed to extend contract negotiations relating to a new collective bargaining agreement with the National Association of Letter Carriers, AFL-CIO ("NALC"). The previous contract with the NALC expired on September 20, 2019, and negotiations with the NALC are at an impasse. The Postal Service and the NALC will continue to follow the current agreement until a new contract is reached through the dispute resolution process.

Contingent Liabilities

The Postal Service's contingent liabilities consist primarily of claims resulting from labor and employment matters; asset retirement obligations and environmental matters; property damage and injuries on Postal Service properties; and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, the Postal Service evaluates each claim to determine its potential liability. If the Postal Service determines that an unfavorable outcome from a new claim is both probable and reasonably estimable, it records a liability for the amount. Preexisting claims are also reviewed and adjusted quarterly for resolutions or revisions to prior estimates based on new facts and circumstances.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its financial condition or operations.

Provision for Losses

The Postal Service has made adequate provision for probable losses arising from all claims. The following table presents contingent liabilities by current and noncurrent portions and by category, as of March 31, 2020, and September 30, 2019:

<i>(in millions)</i>	March 31, 2020	September 30, 2019
Current / noncurrent portions of contingent liabilities:		
Current portion ¹	\$ 151	\$ 195
Noncurrent portion ²	170	141
Total contingent liabilities	\$ 321	\$ 336
Contingent liabilities by category:		
Labor and employment matters	\$ 177	\$ 204
Asset retirement obligations	70	57
Tort matters	74	75
Total contingent liabilities	\$ 321	\$ 336

¹ Included within *Payables and accrued expenses* in the accompanying *Balance Sheets*.
² Included within *Other noncurrent liabilities* in the accompanying *Balance Sheets*.

Reasonably Possible Contingencies

The Postal Service does not accrue for contingencies which it deems reasonably possible of an unfavorable outcome. These ranged in amount from approximately \$175 million to \$1.0 billion at March 31, 2020, and from approximately \$150 million to \$1.0 billion at September 30, 2019.

Class Action Litigation

As previously reported, on January 14, 2010, the Equal Employment Opportunity Commission's ("EEOC") Office of Federal Operations ("OFO") certified the case *McConnell v. Brennan* (first instituted in 2006 as *McConnell v. Potter*) as a class action against the Postal Service, with the class consisting of permanent-rehabilitation and limited-duty Postal Service employees who the Postal Service assessed under the National Reassessment Process ("NRP") between the dates of May 5, 2006, and July 1, 2011. The Postal Service utilized the NRP to ensure employees receiving workers' compensation benefits were placed in jobs consistent with their abilities, and that records regarding employees injured on the job were correct.

The *McConnell* case alleges violations of the Rehabilitation Act of 1973 resulting from the NRP's failure to provide a reasonable accommodation, the NRP's wrongful disclosure of medical information, the NRP's creation of a hostile work environment, and the NRP's adverse impact on disabled employees. The class is seeking injunctive relief and damages of an uncertain amount.

In 2015, the Administrative Judge assigned to handle the *McConnell* case granted in-part both the Class Agent's and the Postal Service's motions for summary judgment. In her decision, the Administrative Judge found that the NRP violated the Rehabilitation Act. The Postal Service appealed this decision to the OFO, and the OFO denied this appeal in 2018. The Postal Service implemented the OFO's order, and notified all class members of their right to file an individual claim for relief. Class members were allowed thirty days to submit claims to the Postal Service's National Equal Employment Opportunity Investigative Services Office. The claims submission deadline has now passed and the dispute process for individual claims is currently underway before a newly assigned EEOC Administrative Judge.

The class members have the right to pursue individual claims. Should they be successful in establishing liability and damages, the ultimate outcome in this case could have a material impact on the Postal Service's financial results.

NOTE 9 - RETIREMENT PLANS

The majority of career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, which OPM administers. These plans provide retirement, death and disability benefits for eligible employees based on specific eligibility and participation requirements, vesting periods and benefit formulas. Each employee's participation in either plan is based on the starting date of employment with the Postal Service or another U.S. government entity.

As government-sponsored benefit plans, CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, it accounts for program expenses under multiemployer plan accounting rules. As such, the Postal Service records required contributions to the plans as an expense in the period in which each contribution is due. For FERS, the Postal Service contributes to the plan an amount established by OPM as the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service, which is considered the FERS normal cost. As further discussed below, the Postal Service is not required to pay the normal cost for those employees who participate in CSRS.

Career employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. The Postal Service's TSP expenses relate only to its contributions for FERS employees who participate in the TSP.

CSRS provides a basic annuity plan benefit to employees hired before January 1, 1984. CSRS Offset provides Social Security benefits in addition to its basic annuity plan for employees hired between January 1, 1984, and

January 1, 1987. CSRS and CSRS Offset employees may also participate in the TSP, although the Postal Service does not match contributions for these participants.

The PAEA suspended the Postal Service's employer contributions to CSRS that would otherwise have been required under *Title 5, Section 8334(a)(1)* of the U.S. Code, although CSRS employees continue to contribute to the plan.

Effective January 1, 1987, FERS covers employees hired since December 31, 1983, and FERS employees are covered by an annuity, Social Security and TSP benefits. For FERS employees who participate in TSP, the Postal Service contributes 1% of basic pay and matches voluntary employee contributions up to an additional 4% of basic pay. The Postal Service recognizes Social Security and TSP expenses as they are incurred and records them within *Compensation and benefits* in the accompanying unaudited *Statements of Operations*. A liability is established for any contribution due and unpaid at the end of each reporting period and is included within *Compensation and benefits* in the accompanying *Balance Sheets*.

FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees ("FERS-RAE"), or FERS - Further Revised Annuity Employees ("FERS-FRAE") depending on whether their date of hire was before, during, or after calendar year 2013, respectively.

The following table presents the employee and employer contributions, as a percentage of employee basic pay, during the three and six months ended March 31, 2020, and 2019:

	March 31, 2020		March 31, 2019	
	Employee Contributions	Postal Service Contributions	Employee Contributions	Postal Service Contributions
CSRS	7.0%	—%	7.0%	—%
FERS	0.8%	14.7%	0.8%	13.7%
FERS-RAE	3.1%	12.8%	3.1%	11.9%
FERS-FRAE	4.4%	11.7%	4.4%	10.7%

Aside from these different contribution rates, the Postal Service uses the term "FERS employees" to apply to employees within all of the FERS employee categories.

The following table presents the retirement benefits expenses for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
FERS normal costs	\$ 945	\$ 870	\$ 1,891	\$ 1,757
CSRS unfunded retirement benefits amortization ¹	495	360	899	720
FERS unfunded retirement benefits amortization ²	378	240	643	479
Total retirement benefits	\$ 1,818	\$ 1,470	\$ 3,433	\$ 2,956

¹ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made through 2043 based on OPM invoices.

² Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made over a 30-year rolling period based on OPM invoices.

FERS Normal Costs

The Postal Service records expenses for FERS normal costs within *Retirement benefits* in the accompanying unaudited *Statements of Operations*.

The Postal Service makes payments for FERS normal costs in accordance with its bi-weekly payroll cycle. The employer contributions and employee withholdings not yet remitted to OPM were \$209 million and \$157 million at March 31, 2020, and September 30, 2019, respectively, and were recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

CSRS and FERS Unfunded Retirement Benefits

OPM periodically notifies the Postal Service regarding its revaluation of unfunded CSRS and FERS liabilities. OPM calculates these obligations using Postal Service-specific demographics data and government-wide economic assumptions. The Postal Service records these expenses as *Retirement benefits* in the accompanying unaudited *Statements of Operations*. These amounts may be significantly impacted by changes in actuarial assumptions used to revalue the unfunded liabilities.

In October 2019, OPM provided the Postal Service with an actuarial report indicating the projected annual amortization payments due September 30, 2020, would be \$1.6 billion for the CSRS obligation and \$1.1 billion for the FERS obligation.

On April 2, 2020, the Board of Actuaries of the CSRS, which oversees OPM's calculation of actuarial liabilities for CSRS and FERS, adopted changes to the actuarial assumptions used to calculate CSRS and FERS unfunded retirement liabilities, including lowering the discount rate from 4.25% to 4.00%, as well as decreasing the inflation rate, the COLA rate and the general wage increase rate. The Postal Service has estimated that the impact of these changes in actuarial assumptions on the annual CSRS and FERS amortization expense will result in revised projected amortization payments due September 30, 2020, of approximately \$1.8 billion for the CSRS obligation and approximately \$1.3 billion for the FERS obligation, increases of \$181 million and \$226 million, respectively.

Accordingly, the Postal Service accrued additional CSRS and FERS amortization expenses during the three months ended March 31, 2020, to reflect the proportional adjustment between the original OPM estimate and the updated Postal Service estimate as a result of these changes. The Postal Service expects to receive invoices from OPM for the actual amounts due September 30, 2020, during the fourth quarter of 2020, and these invoices may differ from the estimated projections due to further changes in experience and/or actuarial assumptions as of the calculation date.

The amounts the Postal Service has accrued for CSRS and FERS unfunded retirement benefits but has not yet paid are recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*. Those accrued but unpaid amounts were approximately \$9.8 billion and \$8.2 billion at March 31, 2020, and September 30, 2019, respectively.

NOTE 10 - HEALTH BENEFITS PLANS

FEHB Program covers nearly all career employees and also covers non-career employees and retirees who meet certain eligibility requirements. OPM administers FEHB and allocates the cost of funding the program to participating U.S. government employers. Separate from FEHB, the Postal Service offers its own healthcare plan to certain non-career employees who are ineligible for FEHB.

Active Employees

The Postal Service paid 71.9% of healthcare premium costs during both the three months ended March 31, 2020, and 2019. The Postal Service paid 72.0% and 72.2% of healthcare premium costs during the six months ended March 31, 2020, and 2019, respectively. Although OPM determines the actual FEHB premium costs, the allocation of these costs between the Postal Service and most of its employees is determined through agreements with Postal Service labor unions.

Postal Service employee health benefits expense (which includes the employer portion of Medicare taxes) is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. Postal Service employee health benefits expense was approximately \$1.3 billion for each of the three-month periods ended March 31, 2020, and 2019. Postal Service employee health benefits expense was approximately \$2.6 billion for each of the six-month periods ended March 31, 2020, and 2019. These expenses are included within *Compensation and benefits* in the accompanying unaudited *Statements of Operations*.

Retirees

Postal Service retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits. The Postal Service is required to contribute to the PSRHBf an amount estimated to be equal to the employer portion of FEHB insurance premiums for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service (normal cost). The Postal Service is also required to contribute an amount sufficient to fully amortize the unfunded liability of the PSRHBf by 2056. These amounts are based, in part, on each current and prospective retiree's length of federal civilian service occurring on or after July 1, 1971. Each participant's share of premium costs is set by law and is not subject to negotiation with Postal Service labor unions. The Postal Service cannot direct the costs, benefits or funding requirements of the plans. Therefore, it accounts for program expenses using multiemployer plan accounting rules by recording contributions to the plans that will be required by OPM as an expense in the period in which the contributions are due.

The PAEA required the Postal Service to prefund retiree health benefits during years 2007 through 2016 by paying statutorily specified annual amounts ranging from \$1.4 billion to \$5.8 billion, totaling \$54.8 billion, into the PSRHBf, which began paying the Postal Service's share of retiree health benefit premiums in 2017. The Postal Service remains obligated to fund the \$33.9 billion in statutorily required PSRHBf prefunding payments that it defaulted on for the years 2012 through 2016, as well as the normal cost and amortization payments of \$10.7 billion and \$2.6 billion, respectively, that it did not pay for the years 2017 through 2019. As of the date of this report, the Postal Service has not been assessed any penalties associated with these non-payments. The cumulative amount of statutorily specified, normal cost and amortization PSRHBf obligations the Postal Service has accrued is \$49.7 billion as of March 31, 2020, inclusive of the \$47.2 billion that was unpaid as of September 30, 2019. Given that OPM considers these amounts to be due and payable, the Postal Service reflects the cumulative unpaid amount as a current liability within *Retiree health benefits* in the accompanying *Balance Sheets*.

As required by PAEA, OPM annually performs an actuarial valuation for the purpose of developing a payment schedule for the Postal Service to fund the remaining unfunded PSRHBf obligation in annual payments through the year 2056. Based on preliminary calculations provided by OPM, the amortization payment due September 30, 2020, is estimated to be \$900 million.

Furthermore, the Postal Service is obligated to pay the estimated normal cost of retiree health benefits attributable to the service of its employees during the most recent year. Based on preliminary calculations provided by OPM, the Postal Service has estimated the normal cost payment, also due by September 30, 2020, to be \$4.0 billion.

The Postal Service expects to receive the invoice from OPM with the actual amounts due during the fourth quarter of 2020 and these may differ from the original projected amounts due to changes in discount rates, actuarial assumptions and experience as of the calculation date.

The following table details retiree health benefits expenses for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
PSRHBf unfunded liability amortization ¹	\$ 225	\$ 275	\$ 450	\$ 550
Normal cost of retiree health benefits ²	1,000	1,000	2,000	2,000
Total retiree health benefits expense	\$ 1,225	\$ 1,275	\$ 2,450	\$ 2,550

¹ Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, as calculated by OPM, to amortize the unfunded PSRHBf retirement health benefit obligation. Payments are to be made through 2056 based on OPM invoices.

² Expense for the accrual for the annual payment due to the PSRHBf by September 30 of the respective year, based on information provided by OPM, for the actuarially determined normal cost of retiree health benefits for current employees.

NOTE 11 - WORKERS' COMPENSATION

Postal Service employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the U.S. Department of Labor's ("DOL") Office of Workers' Compensation Programs, which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses DOL for all workers' compensation benefits paid to or on behalf of Postal Service employees, plus an administrative fee.

Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured on the job and are eligible for benefits, or their qualified survivors. Both the current and noncurrent portions of the workers' compensation liability are recorded in the accompanying *Balance Sheets*. The Postal Service uses an estimation model that utilizes four generally accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked.

Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial assumptions, new compensation and medical cases, the progression of existing cases and changes in discount (interest) and inflation rates, including long-term COLA rates for compensation claims, and medical rates for medical claims. These rates are updated as of the balance sheet date and factored into the model.

To determine the fair value of the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current discount (interest) rates to fully fund the future total cost of claims, and this calculated present value is the recorded value of the workers' compensation liability.

This liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the March 31, 2020, liability and related expense by approximately \$2.4 billion. Likewise, a 1% decrease in the discount rate would increase the March 31, 2020, liability and related expense by approximately \$3.1 billion.

The following table details the applicable inflation and discount rates for compensation and medical claims used to estimate the workers' compensation liability as of March 31, 2020, and September 30, 2019:

	March 31, 2020	September 30, 2019
Compensation claims liability:		
Discount rate	1.05%	1.90%
Long-term wage inflation rate	2.60%	2.60%
Medical claims liability:		
Discount rate	1.07%	1.91%
Medical inflation rate	3.50%	2.50%

As of March 31, 2020, and September 30, 2019, the Postal Service's total liability for workers' compensation was approximately \$20.0 billion and \$18.5 billion, respectively. As of March 31, 2020, and September 30, 2019, the current portion of the liability was approximately \$1.3 billion and \$1.4 billion, respectively, and the noncurrent portion of the liability was approximately \$18.7 billion and \$17.1 billion, respectively, as reflected in the accompanying *Balance Sheets*.

Workers' Compensation Expense

The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, are components of total workers' compensation expense as recorded in the accompanying unaudited *Statements of Operations*. In addition, the Postal Service pays an administrative fee to DOL, which is considered a component of workers' compensation expense.

The following table presents the components of workers' compensation expense for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Impact of discount rate changes	\$ 2,628	\$ 454	\$ 2,085	\$ 959
Actuarial revaluation of existing cases	(21)	(16)	(4)	52
Cost of new cases	369	312	672	602
Administrative fee	21	21	42	45
Total workers' compensation expense	\$ 2,997	\$ 771	\$ 2,795	\$ 1,658

NOTE 12 - LEASES

Postal Service Leases

The Postal Service holds lessee positions in real property leases as well as lessee positions embedded in service contracts involving rights to use transportation equipment and facilities.

Real property leases support retail, delivery, mail processing, maintenance, administrative and support activities. The non-cancellable base terms of these leases typically range from one to five years, with one or more options to renew for additional five-year terms. The lease terms for these arrangements generally range from one to thirty years including any renewal options that are reasonably certain to be exercised. Additionally, certain real property leases contain purchase and termination options. At the commencement of most real property lease arrangements, the Postal Service is not reasonably certain if it will exercise such options. Real property leases include certain variable lease payments associated with non-lease components, such as common area maintenance costs, and non-lease components such as real estate taxes, which are generally charged as a pass-through based on actual amounts incurred by the lessor. The Postal Service records costs associated with real property leases within *Other operating expenses* in the accompanying unaudited *Statements of Operations*.

Transportation equipment leases apply primarily to vehicles, trailers, and aircraft. The non-cancellable base terms of these leases typically range from two to five years, and may include one or more options to renew for an additional one or two years. The lease terms for these arrangements generally range from two to five years including any renewal options the Postal Service is reasonably certain to exercise. Transportation equipment leases do not contain purchase options, however certain of these leases contain termination options. At the commencement of most transportation lease arrangements, the Postal Service is not reasonably certain if it will exercise such termination options. Certain transportation leases contain variable lease payments based on the volume of activity under the contract. The Postal Service records costs associated with transportation leases within *Transportation* in the accompanying unaudited *Statements of Operations*.

Postal Service leases do not contain any material residual value guarantees or restrictive covenants.

Sublease income was not material to the financial statements for the three and six months ended March 31, 2020.

Balances disclosed herein include those pertaining to certain related-party transactions. See *Note 5 - Related Parties* for additional information on related party transactions.

The table below reconciles the undiscounted cash flows for the first five years and the total remaining finance lease liabilities and operating lease liabilities recorded in the accompanying unaudited *Balance Sheet* as of March 31, 2020:

(in millions)	As of March 31, 2020		
	Finance Leases	Operating Leases	Total Leases
2020	\$ 28	\$ 624	\$ 652
2021	49	1,153	1,202
2022	55	961	1,016
2023	18	687	705
2024	22	485	507
Thereafter	82	819	901
Total undiscounted lease payments	\$ 254	\$ 4,729	\$ 4,983
Present value adjustment	(53)	(227)	(280)
Net lease liabilities	\$ 201	\$ 4,502	\$ 4,703

Leases that were entered into but not yet commenced as of March 31, 2020, are not significant to the Postal Service's financial statements.

Lease costs for finance and operating leases for all non-cancellable leases are set forth below for the three and six months ended March 31, 2020:

(in millions)	Three Months Ended March 31, 2020	Six Months Ended March 31, 2020
Finance lease cost:		
Amortization of right-of-use assets	\$ 7	\$ 15
Interest on lease liabilities	3	6
Total finance lease cost	\$ 10	\$ 21
Operating lease cost	311	759
Variable lease cost	190	369
Short-term lease cost	61	103
Total lease cost	\$ 572	\$ 1,252

The following information represents supplemental cash and non-cash information as well as lease term and discount rate information separately for finance leases and operating leases, for the six months ended March 31, 2020:

(\$ in millions)	Six Months Ended March 31, 2020
Finance Leases:	
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows - interest on lease liability	\$ 6
Financing cash flows - principal repayments	\$ 21
Right-of-use assets obtained in exchange for lease payments	\$ —
Weighted-average remaining lease term - finance leases	7.24 years
Weighted-average discount rate - finance leases	6.30%
Operating Leases:	
Operating cash flows from operating leases	\$ 606
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 172
Weighted-average remaining lease term - operating leases	5.34 years
Weighted-average discount rate - operating leases	1.70%

Disclosures Related to Period Prior to ASC 842 Adoption

Rent expense was \$307 million and \$614 million for three and six months ended March 31, 2019, respectively. Amortization expense for capital leases was approximately \$8 million and \$17 million for the three and six months ended March 31, 2019, respectively. Sublease income was immaterial for both the three and six months ended March 31, 2019.

The amounts below represent future minimum payments for all non-cancellable leases with original lease terms greater than one year, including leases containing renewal options that have been exercised, as of September 30, 2019:

(in millions)	Operating	Capital
2020	\$ 1,214	\$ 48
2021	1,061	35
2022	829	21
2023	540	15
2024	352	13
Thereafter	563	59
Total lease obligations	\$ 4,559	\$ 191
Less: Interest		46
Total capital lease obligations		\$ 145
Less: Current portion of capital lease obligations		66
Noncurrent portion of capital lease obligations		\$ 79

Capital leases, recorded at historical cost within *Property and equipment, net* in the accompanying *Balance Sheets*, were \$496 million as of September 30, 2019. Total accumulated amortization related to capital leases was \$377 million at September 30, 2019.

Lease Accounting Policies

Lease Accounting Policy for Comparative Periods

As the lessee, the Postal Service classifies leases which have original lease terms greater than one year and that transfer substantially all the risks and rewards of ownership to the Postal Service, as capital leases. These leases are capitalized on the lease commencement date at the lower of the fair value of the leased assets or the present value of the minimum lease payments. The discount rate used to determine the present value is based on average U.S. Treasury rates. Property acquired under a capital lease is amortized over the lease term. Capital leases are included within *Property and equipment, net* in the accompanying *Balance Sheets*.

The Postal Service classifies all other lease arrangements in which substantially all risks and rewards of ownership are retained by the lessor as operating leases. Rent expense for operating leases is included in *Other operating expenses* in the accompanying unaudited *Statements of Operations* on a straight-line basis over the term of the lease.

Lease Accounting Policy for the Six Months Ended March 31, 2020

The Postal Service determines at the inception of the contract if an arrangement represents a lease or contains lease components. A contract is deemed to represent or include a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Postal Service is assumed to have the right to control the use of the underlying asset if the contract conveys the rights to obtain substantially all of the economic benefits of the underlying asset and the rights to direct how and for what purpose such asset is used during the contract term.

As the lessee, the Postal Service classifies all leases with original lease terms less than one year as short-term leases. The Postal Service classifies all other leases which transfer substantially all the risks and rewards of ownership to the Postal Service as finance leases. Finance lease right-of-use assets are included within *Property and equipment, net* in the accompanying *Balance Sheets*. The current and noncurrent portions of finance lease liabilities are included within *Payables and accrued expenses* and *Other noncurrent liabilities*, respectively, within the accompanying *Balance Sheets*. The Postal Service classifies the remaining leases, not classified as short-term leases or finance leases, as operating leases. The Postal Service considers a lease term to include all non-cancelable periods and renewal periods when the Postal Service is reasonably certain that it will exercise the related renewal option.

For short-term leases, the Postal Service records lease expenses in the statement of operations on a straight-line basis over the lease term.

Leases that do not qualify as short-term are recorded in the balance sheet on the lease commencement date, each as a right-of-use asset and a lease liability.

Lease liabilities are initially measured at the net present value of the lease payments due after the commencement date. For this purpose, lease payments include fixed and in-substance fixed rental payments, variable lease payments that depend on an index or rate, and the price of options that the Postal Service is, at the commencement of the lease, reasonably certain to exercise. Lease liabilities are subsequently increased to reflect the interest accrued and reduced when lease payments are made by the Postal Service.

Right-of-use assets are initially measured at the net present value of the lease payments (including amounts due prior to or on the commencement date), adjusted for the impact of initial direct costs and lease incentives. For finance leases, right-of-use assets are subsequently amortized on a straight-line basis over the shorter of the useful life of the underlying asset or the lease term. For operating leases, right-of-use assets are amortized in such a way that the combination of the interest expense accrued on the lease liability and the asset amortization results in a straight-line expense over the lease term.

Right-of-use assets for operating and finance leases are periodically reviewed for impairment losses, following the same process as for other long-lived assets. Impairment losses on long-lived assets are recorded when events or circumstances indicate that an asset's fair value is less than its carrying value. When such a determination is made, the carrying values of the assets are written down to fair value. The Postal Service uses the long-lived assets

impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment - Overall*, to determine whether a right-of-use asset is impaired, and if so, the amount of the impairment loss to recognize. No impairment losses have been recognized to date.

The discount rates used in net present value calculations are determined based on the Postal Service's incremental borrowing rates on debt outstanding with the FFB at the beginning of each year, which is approximated as the daily U.S. Treasury Yield Curve Rates for the five-year, 10-year, 20-year and 30-year periods, plus a 12.5 basis point spread.

Variable lease payments, except for those based on an index or rate, are recognized as variable lease expenses in the period in which the obligation for those payments are incurred.

NOTE 13 - FAIR VALUE MEASUREMENT

The Postal Service defines fair value as the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties.

The carrying amounts of certain current assets and liabilities, including cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term nature. Assets within *Property and equipment, net* are recorded at cost and measured at fair value on a nonrecurring basis if they are determined to be impaired or classified as assets held for sale.

Noncurrent receivables and long-term debt are measured using a fair value hierarchy model. This model prioritizes observable and unobservable inputs used to measure fair value, and consists of three broad levels, as defined in authoritative literature.

For the three and six months ended March 31, 2020, no significant transfers between *Level 1* and *Level 2* assets or liabilities transpired. The carrying amount and fair value of the revenue forgone installment receivable and long-term debt are presented for disclosure purposes only in the following table:

(in millions)	March 31, 2020		September 30, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone installment receivable*	\$ 476	\$ 584	\$ 466	\$ 516
Long-term debt	\$ 11,000	\$ 11,936	\$ 11,000	\$ 11,437

* The carrying amount is included within *Other assets* (which includes items in addition to the revenue forgone installment receivable) in the accompanying *Balance Sheets*.

The revenue forgone installment receivable qualifies as a financial instrument in accordance with authoritative literature. To calculate its fair value, the Postal Service recognizes the imputed interest it is owed as interest income and estimates the value of this receivable using the interest method, which converts future cash flows to a single discounted amount using interest rates for similar assets, which are considered *Level 2* inputs. The Postal Service then calculates the net present value of anticipated annual installment payments to be received, discounted by the 20-year U.S. Treasury Constant Maturity Rate, which was 1.15% and 1.94% as of March 31, 2020, and September 30, 2019, respectively.

The long-term debt also qualifies as a financial instrument. Because no active market exists for its debt with the FFB, the Postal Service estimates the fair value of the long-term debt by imputing future payments at discount rates provided by the FFB, considered *Level 3* inputs. The weighted averages of the FFB discount rates, based on U.S. Treasury Yield Curve Rates, were 0.36% and 1.79% as of March 31, 2020, and September 30, 2019, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2019, ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on November 14, 2019. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three and six months ended March 31, 2020, are presented in accordance with accounting principles generally accepted in the United States ("GAAP"). These results are not necessarily indicative of the results to be expected for the year ended September 30, 2020, and should be read in conjunction with our Annual Report. All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2020 and 2019.

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements included in this report use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. These risks include, but are not limited to, the effects of the novel strain of coronavirus ("COVID-19") on our business, financial condition and results of operations. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

With our mandate to provide universal postal services to the nation, we serve retail and commercial customers in the U.S., as well as internationally. Our operations include an extensive and integrated retail, processing, distribution, transportation and delivery network, and we operate throughout the U.S., its possessions and territories. We operate as a single segment and report our performance as such.

The *Postal Accountability and Enhancement Act* ("PAEA") classifies our products into two broad categories: Market-Dominant and Competitive "products," however, we use the term "services" in this document for consistency with other descriptions of services offered. The statutes under which we operate also establish certain requirements that affect our financial results, including obligations for retirement benefits within the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS"), and obligations for retiree health benefits including funding of the Postal Service Retiree Health Benefits Fund ("PSRHBF"). We must coordinate with the U.S. Office of Personnel Management ("OPM") to address these obligations.

We have successfully implemented initiatives that have reduced the growth in certain costs by billions of dollars while offering new features for customers such as *Informed Delivery*. However, legal restrictions on pricing, service diversification and operations restrict our ability to cover our costs to provide prompt, reliable and efficient postal services to the nation.

We have established a core set of goals that drive our strategic initiatives and continuous improvement efforts:

1. Deliver a world-class customer experience;
2. Equip, empower and engage employees;
3. Innovate faster to deliver value; and
4. Invest in our future platforms.

As part of these efforts, we aim to achieve long-term financial stability. Our focus on maintaining liquidity and reducing operating expenses reflects current trends, as well as projected future volume of mail and packages. We believe that financial stability is within reach with targeted legislative and regulatory reform to address our overall cost structure and enhance our revenue-generating opportunities as we continue to identify and create innovative and affordable services, and deliver high levels of performance and service. Such financial stability would continue to provide Congress and the executive branch with additional time to address the broader issues regarding our overall cost structure and revenue-generating opportunities.

RESULTS OF OPERATIONS

SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and contribution associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, increased competition in the more labor-intensive Shipping and Packages business and an increasing number of delivery points.

Effects of COVID-19

In March 2020, the World Health Organization ("WHO") declared COVID-19 a global pandemic, which has since spread throughout the U.S. Changing federal, state and local government actions to address the pandemic have been occurring on a daily basis, and government-imposed shelter-in-place and other movement restrictions designed to slow the pace of the outbreak have severely impacted the U.S. economy. We believe the severity and duration of the COVID-19 pandemic are uncertain, and such uncertainty will likely continue during the second half of fiscal year 2020.

Our employees provide an essential public service and bind the nation together as a part of the country's critical infrastructure. At least six days per week, and in some instances seven, our employees accept, process, transport, and deliver vital mail and packages like medicine, essential consumer staples, benefits checks, and important information, in every community, to every home and business, and we will continue to do so. As Americans are urged to stay home, the importance of the mail will only grow as our customers, including those in rural areas and senior citizens, will need access to vital communications, essential packages and other necessities.

Shortly after the WHO declaration, we created a dedicated COVID-19 response team to lead our response efforts. All of our employees are considered essential, and their safety is our highest priority. Following strategies recommended by the Centers for Disease Control and Prevention, we have implemented enhanced safety measures to protect the health of our employees.

In late March 2020, we restricted business travel and implemented remote work arrangements for certain of our office-based employees. We have also implemented new leave policies for employees who may be affected by illness, quarantines or childcare obligations. These arrangements have not materially affected our ability to maintain our business operations, including the operation of financial reporting systems, internal control over financial reporting, and disclosure controls and procedures.

While we have maintained full operations during the pandemic, travel and logistics restrictions have negatively affected our retail and commercial customers, as well as our suppliers and mail service providers. Many of our commercial customers, especially those with consumer-facing businesses, have been required to suspend their operations or operate at a lower capacity. As a result, our mail volumes began to decline significantly in late March 2020. The sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover to levels prior to the pandemic.

Although the COVID-19 pandemic has caused a recent surge in the nation's use of e-commerce, resulting in higher Shipping and Packages volumes, we do not expect the resulting increases in Shipping and Packages revenues to be sustainable or to offset losses in mail service revenue caused by COVID-19. While the future is uncertain, we believe that the nation's increased use of e-commerce is likely to plateau in the short term as the effects of the pandemic begin to subside, followed by a longer-term regression of e-commerce caused by a weakened U.S. economy. Furthermore, this anticipated economic weakness has resulted in significant interest rate declines, which have caused an increase in certain of our workers' compensation and retirement benefits liabilities and expenses.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act*, enacted as Public Law 116-136 (the “*CARES Act*”). Notwithstanding our \$15.0 billion statutory debt limit, and \$3.0 billion annual limit on new borrowing, the *CARES Act* allows us to borrow up to an additional \$10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. However, we have no assurance that the U.S. Treasury will agree to provide such financing upon favorable terms.

We estimate that the COVID-19 pandemic may increase our net operating loss by more than \$22.0 billion over the next eighteen months, threatening our ability to operate. If we borrow the \$10.0 billion from the U.S. Treasury as provided by the *CARES Act*, and choose to prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, if necessary and as has been done in the past, we expect that we will have sufficient liquidity to continue to operate through May 2021.

Three Months Ended March 31, 2020

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the three months ended March 31, 2020, increased \$349 million, or 2.0%, compared to the same period last year. The increase in operating revenue was due to the following:

- Shipping and Packages revenue increase of \$386 million, or 7.1%, with a volume growth of 12 million pieces, or 0.8%, driven largely by the January 2020 price increases applicable to certain Competitive services and the temporary surge in e-commerce in late March 2020 resulting from the COVID-19 pandemic; and
- *First-Class Mail* revenue increase of \$89 million, or 1.4%, despite a volume decline of 29 million pieces, or 0.2%. Revenue growth was the result of decennial mailings associated with the 2020 U.S. Census, otherwise revenue and volume would have each declined during the quarter.

The above increases in operating revenue were partially offset by a decrease in *Marketing Mail* revenue of \$94 million, or 2.5%, with a volume decline of 604 million pieces, or 3.4%, largely the result of the COVID-19 pandemic, as many of our commercial customers, especially those with consumer-facing businesses, began to suspend their operations or operate at a lower capacity in March 2020. Political and election mail revenue and volumes increased by approximately \$100 million and 500 million pieces, respectively, compared to the same period last year, resulting from the impact of the 2020 primary and general elections, partially offsetting the decrease in *Marketing Mail*.

As more fully described below in *Operating Expenses*, our operating expenses for the three months ended March 31, 2020, increased approximately \$2.8 billion, or 14.2%, compared to the same period last year. The increase in operating expenses was primarily due to the following:

- Workers' compensation expense increase of approximately \$2.2 billion, primarily due to declines in discount rates, outside of management's control, as the COVID-19 pandemic weighed on the U.S. economy;
- Retirement benefits expense increase of \$348 million, or 23.7%, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization, which are outside of management's control, and to increased contribution rates for FERS normal costs, compared to the same period last year;
- Other operating expenses increase of \$124 million, or 5.3%, due to spending increases in various categories including enhancements to cyber security and information technology;
- Compensation and benefits expense increase of \$119 million, or 1.0%, due primarily to contractual wage increases.

Overall, we reported a net loss of approximately \$4.5 billion for the three months ended March 31, 2020, compared to a net loss of approximately \$2.1 billion for the same period last year.

Six Months Ended March 31, 2020

As more fully described below in *Operating Revenue and Volume*, our operating revenue for the six months ended March 31, 2020, decreased \$11 million, which was essentially flat, compared to the same period last year.

The decrease in operating revenue was largely due to the following:

- *Marketing Mail* revenue decrease of \$347 million, or 4.1%, with a volume decline of approximately 2.3 billion pieces, or 5.9%, driven by decreases in revenue and volume from political and election mail in the first quarter. Political and election mail revenue and volumes decreased by approximately \$140 million and 900 million pieces, respectively, compared to the same period last year, which benefited from the impact of the 2018 mid-term elections during the first quarter of 2019. Furthermore, volume declined due to the COVID-19 pandemic in the second quarter, as the pandemic affected many of our commercial customers;
- *First-Class Mail* revenue decrease of \$79 million, or 0.6%, with a volume decline of 600 million pieces, or 2.1%, reflecting the continuing migration from mail to electronic communication and transaction alternatives; and
- *Periodicals* revenue decrease of \$57 million, or 9.4%, with a volume decline of 231 million pieces, or 9.8%, driven by the continuing migration to electronic communication and digital advertising.

The decrease in operating revenue was partially offset by an increase in Shipping and Packages revenue of \$532 million, or 4.5%, despite a volume decline of 73 million pieces, or 2.2%, as we continued to see revenue growth in this service category during the six-month period driven largely by the January 2020 price increases applicable to certain Competitive services.

As more fully described below in *Operating Expenses*, our operating expenses for the six months ended March 31, 2020, increased approximately \$1.6 billion, or 4.0%, compared to the same period last year. The increase in operating expenses was primarily due to the following:

- Workers' compensation expense increase of approximately \$1.1 billion, or 68.6%, primarily due to declines in discount rates, outside of management's control, as the COVID-19 pandemic weighed on the U.S. economy;
- Retirement benefits expense increase of \$477 million, or 16.1%, due to revised actuarial assumptions for CSRS and FERS unfunded retirement benefits amortization, which are outside of management's control, and to increased contribution rates for FERS normal costs, compared to the same period last year;
- Other operating expenses increase of \$122 million, or 2.5%, due to spending increases in various categories including enhancements to cyber security and information technology; and
- Transportation expenses increase of \$63 million, or 1.5%, primarily resulting from higher highway transportation costs, but partially offset by lower international transportation costs. The increase in highway transportation costs was driven by a one-time adjustment associated with embedded leases, but partially offset by a decrease in the number of miles driven and lower average diesel fuel prices. The decrease in international transportation costs was driven by lower *International Mail* volumes.

The above increases in operating expenses were partially offset by a decrease in compensation and benefits expense of \$71 million, or 0.3%, primarily resulting from lower compensation costs. The decrease in compensation costs was driven by management's efforts to align work hours with volume workloads, but partially offset from increases due to contractual wage adjustments.

Overall, we reported a net loss of approximately \$5.3 billion for the six months ended March 31, 2020, compared to a net loss of approximately \$3.6 billion for the same period last year.

Non-GAAP Controllable Loss

In the day-to-day operation of our business, we focus on costs that can be managed in the course of normal business operations, such as salaries and transportation. We calculate controllable loss, a non-GAAP measure, by excluding items over which we have no control, such as PSRHBF actuarial revaluation and amortization expenses, workers' compensation expenses caused by actuarial revaluation and discount rate changes, and retirement expenses caused by actuarial revaluation. Controllable loss should not be considered a substitute for net loss and other GAAP reporting measures.

The following table reconciles our GAAP net loss to controllable loss for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Net loss	\$ (4,515)	\$ (2,082)	\$ (5,263)	\$ (3,619)
PSRHBf unfunded liability amortization expense ¹	225	275	450	550
Change in workers' compensation liability resulting from fluctuations in discount rates	2,628	454	2,085	959
Other change in workers' compensation liability ²	(3)	(53)	7	2
CSRS unfunded liability amortization expense ³	495	360	899	720
FERS unfunded liability amortization expense ⁴	378	240	643	479
Controllable loss	\$ (792)	\$ (806)	\$ (1,179)	\$ (909)

¹ Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, as calculated by OPM, to amortize the unfunded PSRHBf retirement health benefit obligation. Payments are to be made through 2056 based on OPM invoices.

² Net amounts include changes in assumptions, valuation of new claims and revaluation of existing claims, less current year claim payments.

³ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made through 2043 based on OPM invoices.

⁴ Expense for the accrual for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made over a 30-year rolling period based on OPM invoices.

Our controllable loss decreased \$14 million for the three months ended March 31, 2020, compared to the same period last year. This decrease was largely driven by the \$349 million increase in operating revenue, offset by higher other operating expenses of \$124 million, higher compensation and benefits expenses of \$119 million, and higher FERS normal costs of \$75 million.

Our controllable loss increased \$270 million for the six months ended March 31, 2020, compared to the same period last year. This increase was largely driven by higher FERS normal costs of \$134 million and higher transportation expenses of \$63 million, partially offset by lower compensation and benefits expenses of \$71 million.

These items are discussed in greater detail in *Operating Revenue and Volume* and *Operating Expenses* below.

OPERATING REVENUE AND VOLUME

The combined categories of *First-Class Mail* and *Marketing Mail* continued to provide the majority of our revenue, despite long-term trends away from traditional paper communication and correspondence to electronic media. Although this migration to electronic media has resulted in significant volume declines in *First-Class Mail*, over the last decade, *Marketing Mail* volume remained relatively steady between 2009 and 2016. However, *Marketing Mail* volume began to decline at a greater rate beginning in 2017 and continued to decline through the first half of 2018. Aside from a volume rebound between the second half of 2018 through the first quarter of 2019 that was driven by increases in political and election mail associated with the 2018 mid-term elections, *Marketing Mail* resumed its volume decline through the remainder of 2019 and the first half of 2020.

The following table summarizes our operating revenue and volume for the three and six months ended March 31, 2020, and 2019, by each service category:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Operating Revenue:				
First-Class Mail ¹	\$ 6,375	\$ 6,286	\$ 12,847	\$ 12,926
Marketing Mail ²	3,739	3,833	8,150	8,497
Shipping and Packages ³	5,821	5,435	12,427	11,895
International	609	595	1,313	1,308
Periodicals	265	298	552	609
Other ⁴	1,032	1,045	1,903	1,968
Total operating revenue	\$ 17,841	\$ 17,492	\$ 37,192	\$ 37,203
Volume:				
First-Class Mail ¹	14,206	14,235	28,524	29,124
Marketing Mail ²	17,040	17,644	37,342	39,687
Shipping and Packages ³	1,484	1,472	3,221	3,294
International	189	214	430	473
Periodicals	1,021	1,163	2,130	2,361
Other ⁵	73	70	167	161
Total volume	34,013	34,798	71,814	75,100

¹ Excludes *First-Class Package Service - Retail* and *First-Class Package Service - Commercial*.

² Excludes *Marketing Mail Parcels*.

³ Includes *Priority Mail*, *USPS Retail Ground*, *Parcel Select Mail*, *Parcel Return Service Mail*, *Marketing Mail Parcels*, *Package Service Mail*, *First-Class Package Service - Retail*, *First-Class Package Service - Commercial* and *Priority Mail Express*.

⁴ Revenue includes *PO Box services*, *Certified Mail*, *Return Receipts*, *Insurance*, *Other Ancillary Services*, *Shipping and Mailing Supplies*, *Collect on Delivery*, *Registered Mail*, *Stamped Envelopes and Cards*, *Money Orders* and *Other services*.

⁵ Volume includes Postal Service internal mail and free mail provided to certain congressionally mandated groups.

For the three months ended March 31, 2020, *First-Class Mail* generated approximately 36% of operating revenue, which was essentially unchanged compared to the same period last year, and approximately 42% of our volume, a 1% increase compared to the same period last year. *Marketing Mail* generated approximately 21% of operating revenue and 50% of our volume, both 1% decreases from the same period last year.

For the six months ended March 31, 2020, *First-Class Mail* generated approximately 35% of operating revenue, which is essentially unchanged compared to the same period last year, and approximately 40% of our volume, a 1% increase compared to the same period last year. *Marketing Mail* generated approximately 22% of operating revenue and 52% of our volume, both 1% decreases from the same period last year.

We continued to experience positive revenue results in our Shipping and Packages category, and it represented approximately 33% of our revenue for the three months ended March 31, 2020, which was a 2% increase from the same period last year, and approximately 33% of our revenue for the six months ended March 31, 2020, a 1% increase from the same period last year. Shipping and Packages generated approximately 4% of our volume for both the three and six months ended March 31, 2020, which was relatively unchanged compared to the same periods last year.

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have proactively targeted opportunities to grow our business. We continue to focus on our customers' needs and have increased our investment in mail and package innovation. However, we also

recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers and the speed with which we can bring new products to market.

We anticipate that *First-Class Mail* will continue to lose volume in future years with the migration to electronic communication and transactional alternatives resulting from technological changes. To address the long-term trend that such changes have had on our *First-Class Mail* revenue and volume, we have been working with the mailing industry to slow the decline through mailing promotions and leveraging the high open-and-read rates of, for example, bills and statements for additional customer engagement and education.

Furthermore, due to the COVID-19 pandemic our *First-Class Mail* and *Marketing Mail* volumes began an accelerated decline in late March 2020. The sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover to levels prior to the pandemic.

We have also focused on providing new services and innovating with *Marketing Mail*. We have expanded service offerings such as *Informed Delivery*, which enables customers to preview mail and manage packages scheduled to arrive as a means of merging digital and physical mail, as well as allowing mailers to launch interactive digital campaigns. Additionally, we are focusing on opportunities to pilot new products and innovate with customers and the mail industry to enhance the value of hard-copy communication. We believe these service offerings will further improve the value of both *First-Class Mail* and *Marketing Mail*.

Our Shipping and Packages category has historically experienced revenue and volume growth as a result of our successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and Sunday delivery as well as end-to-end markets. We continue to focus on responding to customers' needs by implementing solutions and maintaining strategic business partnerships that help us capitalize on the growing e-commerce business.

The COVID-19 pandemic has caused a recent surge in the nation's use of e-commerce, resulting in higher Shipping and Packages volumes. However, we do not expect the resulting increases in Shipping and Packages revenues to be sustainable or to offset losses in mail service revenue caused by COVID-19. Although the future is uncertain, we believe that the nation's increased use of e-commerce is likely to plateau in the short term as the effects of the pandemic begin to subside, followed by a longer-term regression of e-commerce caused by a weakened U.S. economy.

Our Shipping and Packages category is subject to intense competition which significantly impacts both revenue and volume. Certain major customers continue to divert volume from our network by in-sourcing the last-mile delivery into their own networks. These customers are also aggressively pricing their products and services in order to fill their networks and grow package density. However, as a result of the temporary surge in e-commerce growth driven by the COVID-19 pandemic, some of these customers increased their volume to our network during March 2020 due to their delivery capacity constraints.

We implemented price increases for certain Market-Dominant and Competitive services in January 2019 and 2020. Additionally, we implemented dimensional weighting provisions that amount to price increases for certain Shipping and Packages subcategories in June 2019.

First-Class Mail

First-Class Mail, presented in this report as a mail class and a Market-Dominant service category, includes cards, letters and flats. Prices of *First-Class Mail*, our most profitable service category, are the same regardless the geographic distance between the origination and delivery points. Because *First-Class Mail* is classified by law as Market-Dominant, price increases are currently generally subject to a price cap based on the Consumer Price Index for All Urban Consumers ("CPI-U").

For the three months ended March 31, 2020, *First-Class Mail* revenue increased \$89 million, or 1.4%, despite a volume decline of 29 million pieces, or 0.2%, compared to the same period last year. Revenue growth was the result of decennial mailings associated with the 2020 U.S. Census, otherwise both revenue and volume would have each declined during the quarter. For the six months ended March 31, 2020, *First-Class Mail* revenue decreased \$79 million, or 0.6%, and volume declined 600 million pieces, or 2.1%, compared to the same period

last year. The change in revenue for both periods was less than the corresponding volume declines due to the January 2020 price increase applicable to certain Market-Dominant services. The most significant factor contributing to the declining trend in *First-Class Mail* volume has been the continuing migration from mail to electronic communication and transaction alternatives.

Due to the COVID-19 pandemic, our *First-Class Mail* volume began to decline significantly in late March 2020, and it may never fully recover to levels prior to the pandemic. A protracted loss in customer demand for our services will continue to have a material effect on *First-Class Mail* revenue and volume.

Marketing Mail

USPS Marketing Mail (more commonly, *Marketing Mail*), presented as a mail class and a Market-Dominant service category, generally consists of advertising, newsletters, catalogs, small marketing parcels and other printed matter not required to be processed and delivered as *First-Class Mail* or *Periodicals*.

Marketing Mail volume has generally been challenged by commercial mailers' increasing use of digital and mobile advertising, exacerbated by the COVID-19 pandemic, although this class has benefited from strong political and election mail volumes, particularly in the second half of 2018 and the first quarter of 2019.

For the three months ended March 31, 2020, *Marketing Mail* revenue decreased \$94 million, or 2.5%, and volume declined 604 million pieces, or 3.4%, compared to the same period last year. For the six months ended March 31, 2020, *Marketing Mail* revenue decreased \$347 million, or 4.1%, and volume declined approximately 2.3 billion pieces, or 5.9%, compared to the same period last year. For the three months ended March 31, 2020, our revenue and volume from political and election mail increased by approximately \$100 million and 500 million pieces, respectively, compared to the same period last year, as we began to benefit from the impact of the 2020 elections during the second quarter of 2020. For the six months ended March 31, 2020, our revenue and volume from political and election mail decreased by approximately \$140 million and 900 million pieces, respectively, compared to the same period last year, which benefited from the impact of the 2018 mid-term elections during the first quarter of 2019.

Due to the COVID-19 pandemic, many of our commercial customers, especially those with consumer-facing businesses, have been required to suspend their operations or operate at a lower capacity. As a result, our *Marketing Mail* volume began to decline significantly in late March 2020, and it may never fully recover to levels prior to the pandemic. A protracted loss in customer demand for our services will continue to have a material effect on our *Marketing Mail* revenue and volume.

Marketing Mail is subject to intense competition, and price increases are currently generally capped at the rate of inflation. *Marketing Mail* volume is somewhat reflective of the cyclical nature of the U.S. economy, although targeted advertising campaigns can stimulate demand for this service, and our customers have used *Marketing Mail* to mail to more targeted prospects.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three and six months ended March 31, 2020, and 2019, by each service subcategory:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Shipping and Packages Revenue:				
Priority Mail Services ¹	\$ 2,696	\$ 2,519	\$ 5,674	\$ 5,489
Parcel Services ²	1,774	1,618	3,959	3,724
First-Class Package Services ³	1,151	1,087	2,387	2,252
Package Services	200	211	407	430
Total Shipping and Packages revenue	\$ 5,821	\$ 5,435	\$ 12,427	\$ 11,895
Shipping and Packages Volume:				
Priority Mail Services ¹	279	273	583	594
Parcel Services ²	723	699	1,630	1,643
First-Class Package Services ³	340	341	712	724
Package Services	142	159	296	333
Total Shipping and Packages volume	1,484	1,472	3,221	3,294

¹ Includes *Priority Mail*, a 1-3 business day delivery service; *Priority Mail Express*, an overnight delivery service available 365 days per year; and *USPS Retail Ground*, a retail-only Competitive service priced identically and functionally equivalent to *Priority Mail* for Zones 1-4.

² Includes *Parcel Select*, *Parcel Return*, and *Marketing Mail Parcels*.

³ Includes *First-Class Package Services - Retail* and *First-Class Package Services - Commercial*.

Our Shipping and Packages category has historically experienced revenue and volume growth as a result of our successful efforts to compete in shipping services, including last-mile e-commerce fulfillment markets and Sunday delivery as well as end-to-end markets. However, this service category is subject to intense competition which significantly impacts both our revenue and volume. Shipping and Packages revenue and volume are historically greatest in the first quarter of the year due to the holiday shipping season.

For the three months ended March 31, 2020, Shipping and Packages revenue increased 7.1%, with a volume growth of 0.8%, compared to the same period last year. The volume increased due to a temporary surge in e-commerce in late March 2020 resulting from the COVID-19 pandemic, and revenue outpaced volume increases due to the January 2020 price increases associated with certain Competitive services.

For the six months ended March 31, 2020, Shipping and Packages revenue increased 4.5%, despite a volume decline of 2.2%, compared to the same period last year. The revenue increases were largely due to the January 2020 price increases associated with certain Competitive services. The volume declines largely resulted from intense competition and certain major commercial customers and competitors delivering more of their own packages, compared to the same period last year, offset by the temporary surge in e-commerce in late March 2020 resulting from the COVID-19 pandemic.

Priority Mail Services

Priority Mail Services is our Shipping and Packages subcategory that includes *Priority Mail*, *Priority Mail Express* and *USPS Retail Ground*. *Priority Mail* and *Priority Mail Express* services allow customers the ability to send documents and packages requiring expedited transportation and handling. While Priority Mail Services revenue has historically grown year-over-year, its service offerings are price sensitive and its growth rate has been lower than other Shipping and Packages subcategories due to intense competition.

Priority Mail Services accounted for our largest portion of Shipping and Packages revenue, representing approximately 46% of the total for the three and six months ended March 31, 2020, and 2019. However, Priority

Mail Services accounted for approximately 19% and 18% of the total Shipping and Packages volume for three and six months ended March 31, 2020, respectively, essentially unchanged compared to the same periods last year.

For the three months ended March 31, 2020, Priority Mail Services revenue grew 7.0%, on volume growth of 2.2%, compared to the same period last year. For the six months ended March 31, 2020, Priority Mail Services revenue grew 3.4%, despite a volume decline of 1.9%, compared to the same period last year. Revenue grew at a greater rate than volume for the three-month period, and grew despite the volume decline for the six-month period, largely due to the January 2020 price increases applicable to Competitive services.

Parcel Services

Our Parcel Services subcategory includes Competitive services *Parcel Select* and *Parcel Return*, as well as Market-Dominant *USPS Marketing Mail Parcels* (more commonly, *Marketing Mail Parcels*). *Parcel Select* and *Parcel Return* services largely consist of last-mile deliveries, offered to large bulk shippers that perform their own sorting before dropping parcels deeper into our network.

For the three months ended March 31, 2020, revenue from Parcel Services increased 9.6%, on volume growth of 3.4%, compared to the same period last year. For the six months ended March 31, 2020, revenue from Parcel Services increased 6.3%, despite a volume decline of 0.8%, compared to the same period last year. This subcategory is primarily a last-mile service that bypasses much of our infrastructure and therefore is one of our lowest-priced package services, and as a result, produces a lower contribution per piece when compared to many of our other services. For the six months ended March 31, 2020, volume declined due to certain major commercial customers delivering more of their own packages. However, for the three months ended March 31, 2020, volume increased due to the temporary surge in e-commerce in late March 2020 from the COVID-19 pandemic. Revenue grew at a greater rate than volume for the three-month period, and grew despite the volume decline for the six-month period, largely due to the January 2020 price increases applicable to Competitive services.

First-Class Package Services

Our First-Class Package Services subcategory includes the competitively priced *First-Class Package Service - Retail*, a Competitive service targeted to retail customers for packages weighing up to 13 ounces, and *First-Class Package Service - Commercial*, a Competitive service targeted to commercial customers for packages weighing up to 16 ounces. This subcategory offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced expedited end-to-end tracked package option in the marketplace. First-Class Package Services revenue and volume performance has historically experienced strong increases for the past several years, particularly from our commercial customers. These increases are primarily attributable to growth in e-commerce.

For the three months ended March 31, 2020, First-Class Package Services revenue increased 5.9%, despite a volume decline of 0.3%, compared to the same period last year. For the six months ended March 31, 2020, First-Class Package Services revenue increased 6.0%, despite a volume decline of 1.7%, compared to the same period last year. Revenue grew despite the volume declines, largely due to the January 2020 price increases applicable to Competitive services.

Package Services

Our Package Services subcategory is a Market-Dominant service that includes both Bound Printed Matter for materials up to 15 pounds and Library and Media Mail for materials up to 70 pounds. For the three months ended March 31, 2020, Package Services revenue decreased 5.2% on a volume decline of 10.7%, compared to the same period last year. For the six months ended March 31, 2020, Package Services revenue decreased 5.3% on a volume decline of 11.1%, compared to the same period last year. Revenue declined at a slower rate than volume for the three and six months ended March 31, 2020, due to the January 2020 price increase applicable to Market-Dominant services.

International Mail

Our *International Mail* category includes several services that enable customers, both domestic and abroad, to send international mail, including postcards, envelopes, flats and packages with either standard or express delivery options. “Outbound” services, which allow customers in the U.S. to send mail and packages to other countries, generate approximately two thirds of *International Mail* revenue, but “inbound” services are the opposite, generating two thirds of volume but only a third of the revenue. This is primarily due to the smaller size and lower rates for inbound international e-commerce packages.

For the three months ended March 31, 2020, *International Mail* revenue increased 2.4%, despite a volume decline of 11.7%, compared to the same period last year. For the six months ended March 31, 2020, *International Mail* revenue increased 0.4%, despite a volume decline of 9.1%, compared to the same period last year. These revenue increases were largely due to the January 2020 price increases applicable to Competitive services. The declines in both inbound and outbound volume were due to various competitive pricing, political and economic factors.

The U.S. is a member of the Universal Postal Union (“UPU”), a specialized agency of the United Nations that facilitates the exchange of international mail. We are the designated postal operator for the U.S. under the UPU, and payments to the designated postal operator for the delivery of foreign origin letter-post mails are known as “terminal dues”.

In September 2019, the UPU members had a special meeting -- known as the Extraordinary Congress -- to discuss the terminal dues system. During that meeting, UPU members agreed to establish a new remuneration system that will allow us to self-declare rates beginning in July 2020. Other foreign postal operators may also reciprocally apply rates at full-self-declared rates at that time.

In February 2020, we officially invoked the provision of the new remuneration system to self-declare rates beginning in July 2020.

Periodicals

Periodicals, also presented as a mail class and a Market-Dominant service category, includes services designed for publishers of newspapers, magazines and other periodical publications whose primary purpose is providing publications to subscribers or other users. For the three months ended March 31, 2020, *Periodicals* revenue decreased 11.1% and volume declined 12.2%, compared to the same period last year. For the six months ended March 31, 2020, *Periodicals* revenue decreased 9.4% and volume declined 9.8%, compared to the same period last year.

Periodicals revenue and volume have been in decline for more than a decade as trends in hard-copy reading behavior and shifts of advertising away from print have eroded this business. The *Periodicals* category is not expected to rebound as electronic content continues to grow in popularity with the public.

Other

Other services include ancillary services such as *Certified Mail*, *PO Box* services, and *Return Receipt* services. Also included in this category are money orders and passport services. Other services revenue decreased 1.2%, and 3.3% for the three and six months ended March 31, 2020, respectively, compared to the same periods last year.

OPERATING EXPENSES

In an effort to align our resources with anticipated future mail and package volume, we continue to aggressively manage operating expenditures under management’s control.

We originally designed our mail processing and distribution network to provide overnight delivery service of *First-Class Mail* within specified delivery areas for a much higher volume of mail than we are required to process and deliver today, and the network’s legacy capabilities are not completely aligned to today’s mail mix and volumes. Consequently, certain of our processing and distribution facilities continue to operate at less than full capacity. Our challenge to contain costs is also compounded by the increasing number of delivery points, which, when combined with lower mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from approximately 5.5 pieces in 2007 to 3.4 pieces in 2019, a reduction of approximately 39%, and has continued to decline in 2020.

Compensation and Benefits

Compensation and benefits is our largest operating expense category. These expenses consist of costs related to our active career and non-career employees other than retirement costs associated with U.S. government defined benefit pension programs and retiree health costs which are further discussed in *Retirement benefits* and *Retiree Health Benefits*, respectively.

Overall, our compensation and benefits expenses increased 1.0% for the three months ended March 31, 2020, but decreased 0.3% for the six months ended March 31, 2020, compared to the same periods last year. The following table presents compensation and benefits expenses for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Compensation	\$ 9,583	\$ 9,525	\$ 19,859	\$ 19,962
Employee health benefits	1,296	1,256	2,591	2,571
Social security	545	540	1,114	1,118
TSP	301	290	588	572
Other	79	74	160	160
Total compensation and benefits	\$ 11,804	\$ 11,685	\$ 24,312	\$ 24,383

Compensation

Compensation expense increased 0.6% for the three months ended March 31, 2020, but decreased 0.5% for six months ended March 31, 2020, compared to the same periods last year. The activity in both periods represents increases due to contractual wage adjustments and approximately 3.6 million hours attributable to the extra work day due to the leap year, offset by management's efforts to align work hours with volume workloads.

Work Hours

For the three months ended March 31, 2020, total work hours were approximately 286 million, essentially unchanged compared to the same period last year. However, approximately 3.6 million hours, or 1.3%, were attributable to the extra work day due to the leap year in 2020. Were it not for the extra work day due to the leap year, work hours would have declined for the period.

For the six months ended March 31, 2020, total work hours were approximately 592 million, a decrease of 1.0%, compared to approximately 598 million total work hours for the six months ended March 31, 2019. This decrease was the result of management's efforts to reduce work hours in line with volume workloads.

As a result of the COVID-19 pandemic, work hours began to decline in late March 2020 due to lower mail volumes and workforce availability, and we expect this trend to continue for the duration of the pandemic.

Workforce Composition

The number of career employees at March 31, 2020, was approximately 496,000, a decrease of approximately 1,500 employees, or 0.3%, compared to the same date a year ago. This decrease primarily reflected natural attrition, continued efforts to align our workforce with declining mail volume, offset by conversions of non-career employees to career status, in accordance with our contractual agreements.

The number of non-career employees at March 31, 2020, was approximately 129,500, a decrease of approximately 10,500 employees, or 7.5%, compared to the same date a year ago. This decrease primarily reflected management's continued efforts to align our workforce with declining mail volume, and the conversions of non-career employees to career status, in accordance with our contractual agreements.

Collective Bargaining Agreements

On January 22, 2020, we reached a tentative agreement with the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") on a new three-year collective bargaining agreement, which the union membership ratified on April 7, 2020. The contract includes modest general wage increases over the life of the agreement with a COLA base month of July 2019, a reduction in our share of health insurance premiums, increased flexibility to use mail handler assistant employees, elimination of non-career casual employees, and enhanced benefits for non-career mail handler assistant employees. The new contract went into effect on April 25, 2020, and will expire on September 20, 2022.

On March 10, 2020, a three-member arbitration panel reached a decision in our legally mandated binding interest arbitration process with the American Postal Workers Union, AFL-CIO ("APWU"), establishing the terms of a new collective bargaining agreement. The contract includes modest general wage increases over the life of the agreement with a COLA base month of July 2018, a reduction in our share of health insurance premiums, and wage improvements for postal support employees. The new contract went into effect on March 10, 2020, and will expire on September 20, 2021.

In September 2019, we agreed to extend contract negotiations relating to a new collective bargaining agreement with the National Association of Letter Carriers, AFL-CIO ("NALC"). The previous contract with the NALC expired on September 20, 2019, and negotiations with the NALC are at an impasse. The parties will continue to follow the current agreement until a new contract is reached through the dispute resolution process.

Employee Health Benefits

Our expense for employee health benefits (which includes the employer portion of Medicare taxes) is most significantly impacted by the number of employees electing coverage and the premium costs of the selected plans. Our active employees may participate in the Federal Employees Health Benefits ("FEHB") Program, which OPM administers. Separate from FEHB, we offer our own self-insured healthcare plan to certain non-career employees who are ineligible for FEHB.

Employee health benefits expense increased 3.2% and 0.8% for the three and six months ended March 31, 2020, compared to the same periods last year, driven by average premium increases of 4.0% in calendar year 2020, and partially offset by the lower contribution rate of the employer portion of healthcare premiums that we paid, by management efforts to provide employees with information and tools for selecting the health benefit plans that best meet their needs, and by the small decrease in number of career employees, as previously discussed.

Our share of healthcare premiums for our employees represented 71.9% of the total healthcare premium costs for both the three months ended March 31, 2020, and 2019. Our share of healthcare premiums for our employees represented 72.0% and 72.2% of the total healthcare premium costs for the six months ended March 31, 2020, and 2019, respectively. This decrease in our share of healthcare premium costs for employees during the six-month period was consistent with the terms of our contractual agreements.

Social Security

For the three and six months ended March 31, 2020, our Social Security costs increased 1.0% for the three months ended March 31, 2020, but decreased 0.4% for the six months ended March 31, 2020, compared to the same periods last year. These fluctuations were consistent with the general changes in compensation for the period, as described above in *Compensation*.

The *CARES Act* offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, we began deferring these payments in April 2020, and intend to continue the deferral for the remainder of calendar year 2020 for an estimated total deferral amount of approximately \$1.6 billion. One half of these deferred payments would be due by December 31, 2021, and the other half by December 31, 2022.

Thrift Savings Plan

Career employees may participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. Our TSP expenses are related only to our contributions for FERS employees who participate in the TSP. For these employees, we contribute 1% of basic pay and match voluntary employee contributions up to an additional 4% of basic pay.

For the three and six months ended March 31, 2020, our TSP matching costs increased 3.9% and 2.8%, respectively, compared to the same periods last year. The increase in expenses correlates to the changing workforce composition of CSRS and FERS employees.

Retirement Benefits

The majority of our career employees participate in one of two U.S. government defined benefit pension programs, CSRS and FERS, based on the starting date of their employment with us or another U.S. government employer. We incur normal costs (the amount determined by OPM representing the employer portion of retirement benefits for participating employees and their qualifying survivors, upon retirement, for each employee's current year of service) for FERS employees; however, by law we do not pay normal costs for CSRS retirement benefits. FERS employees are further categorized as either FERS, FERS - Revised Annuity Employees (FERS - RAE), or FERS - Further Revised Annuity Employees (FERS - FRAE) depending on whether their date of hire was before, during, or after calendar year 2013, respectively. This categorization determines the percentage of basic pay that we are required to contribute for normal cost.

Our retirement benefits expenses consist of three components: 1) FERS normal costs, 2) CSRS unfunded retirement benefits amortization, and 3) FERS unfunded retirement benefits amortization. These retirement benefits expense components are further described in detail in the sections below. The following table presents the retirement benefits expenses for the three and six months ended March 31, 2020, and 2019:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
FERS normal costs	\$ 945	\$ 870	\$ 1,891	\$ 1,757
CSRS unfunded retirement benefits amortization ¹	495	360	899	720
FERS unfunded retirement benefits amortization ²	378	240	643	479
Total retirement benefits	\$ 1,818	\$ 1,470	\$ 3,433	\$ 2,956

¹ Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, based on information provided by OPM, to amortize the unfunded CSRS retirement obligation. Payments are to be made through 2043 based on OPM invoices.

² Expense for the accrual for the annual payment due to OPM by September 30 of the respective year, based on information provided by OPM, to amortize the unfunded FERS retirement obligation. Payments are to be made over a 30-year rolling period based on OPM invoices.

Our retirement benefits expenses increased 23.7% and 16.1% for the three and six months ended March 31, 2020, respectively, compared to the same periods last year. This increase was due to rising employer contributions rates for FERS normal cost, as well as increases in the CSRS and FERS unfunded retirement benefits amortization, as discussed below.

For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 9 - Retirement Plans*.

FERS Normal Costs

We record our contributions to FERS normal costs as they are incurred. Any unpaid employer amounts at the end of a period, along with any employee amounts withheld but not remitted at the end of a period, are recorded as a current liability within *Retirement benefits* in the accompanying *Balance Sheets*.

As determined by OPM, our FERS normal cost contribution rates increased from 13.7% to 14.7% of basic pay for 2020, an increase of 7.3% from the prior year, affecting most of our FERS participants. As a result of this contribution rate increase, FERS normal cost expenses increased 8.6% and 7.6% for the three and six months ended March 31, 2020, respectively, compared to the same periods last year.

CSRS and FERS Unfunded Retirement Benefits

OPM periodically notifies us regarding its revaluation of unfunded CSRS and FERS retirement benefits. The amounts we record as expenses for our unfunded CSRS and FERS liabilities may be significantly impacted by changes in actuarial assumptions used by OPM to revalue the unfunded liabilities.

In October 2019, OPM provided an actuarial report projecting the annual amortization payments due September 30, 2020, to be \$1.6 billion for CSRS and \$1.1 billion for FERS.

On April 2, 2020, the Board of Actuaries of the CSRS, which oversees OPM's calculation of actuarial liabilities for CSRS and FERS, adopted changes to the actuarial assumptions used to calculate CSRS and FERS unfunded retirement liabilities, including lowering the discount rate from 4.25% to 4.00%, as well as decreasing the inflation rate, the COLA rate and the general wage increase rate. We have estimated that the impact of these changes in actuarial assumptions on the annual CSRS and FERS amortization expense, will result in revised projected amortization payments due September 30, 2020, of approximately \$1.8 billion for the CSRS obligation and approximately \$1.3 billion for the FERS obligation, increases of \$181 million and \$226 million, respectively.

Accordingly, we have accrued \$495 million and \$899 million for the three and six months ended March 31, 2020, for the CSRS amortization expense, reflecting an adjustment of approximately \$91 million for the revised assumptions. Likewise, we have accrued \$378 million and \$643 million for the three and six months ended March 31, 2020, for the FERS amortization expense, reflecting an adjustment of approximately \$113 million for the revised assumptions.

Our CSRS and FERS unfunded retirement benefits amortization expenses increased 45.5% and 28.6% for the three and six months ended March 31, 2020, respectively, compared to the same periods last year, due to higher estimated annual amortization payments resulting from revised actuarial assumptions.

We expect to receive invoices from OPM for the actual amounts due September 30, 2020, for CSRS and FERS during the fourth quarter of 2020, and the amounts invoiced could differ from the projected amounts, due to further changes in experience and/or actuarial assumptions as of the calculation date.

Retiree Health Benefits

We participate in federal employee benefit programs for retiree health benefits. Retirees who participated in FEHB for the five years immediately preceding their retirement may continue to participate in the plan during retirement. Qualifying survivors of retirees are also eligible to receive benefits.

In accordance with PAEA, since the beginning of 2017, the PSRHBF has funded our share of retiree health benefit premiums. Also since 2017, we have been obligated to pay into the PSRHBF the actuarially determined normal costs of retiree health benefits attributable to the service of our employees, as well as the amortization payment for the PSRHBF unfunded liability. Our total retiree health benefits expenses therefore consist of both the normal and the amortization costs. We record the required contributions to the plan as an expense in the period in which each contribution is due.

Based on preliminary calculations provided by OPM in October 2019, we have projected the PSRHBF amortization payment amount due September 30, 2020, to be \$900 million, and therefore accrued expenses of \$225 million and \$450 million for the three and six months ended March 31, 2020, respectively. We expect to receive the invoice from OPM for the actual amount due during the fourth quarter of 2020 and this may differ from the original projected amount due to changes in discount rates, actuarial assumptions and experience as of the invoice calculation date.

Also, based on preliminary calculations provided by OPM in October 2019 using updated discount rate assumptions, we have estimated the amount of our PSRHBF normal cost payment due September 30, 2020, to be \$4.0 billion, and therefore accrued expenses of \$1.0 billion and \$2.0 billion for the three and six months ended March 31, 2020, respectively. We expect to receive the invoice from OPM for the actual amount due during the fourth quarter of 2020 and this may differ from the original projected amount due to changes in discount rates, actuarial assumptions and experience as of the invoice calculation date.

For the three and six months ended March 31, 2020, our total retiree health benefits expenses decreased by \$50 million, or 3.9%, and \$100 million, or 3.9%, respectively, compared to the same periods last year, all of which was attributable to a decrease in the estimated amortization payment for the PSRHBF unfunded liability.

For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 10 - Health Benefits Plans, Retirees*.

Workers' Compensation

Our employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the U.S. Department of Labor's ("DOL") Office of Workers' Compensation Programs, which makes all decisions regarding injured workers' eligibility for benefits. We are legally mandated to participate in the federal workers' compensation program. Our workers' compensation expense reflects the impacts of changes in discount rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. We reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee.

On a daily basis we focus on costs that can be managed in the course of normal business operations. Certain aspects of workers' compensation can be managed through human resource initiatives, safety measures and training. Other workers' compensation costs cannot be managed in the course of normal business operations and are less predictable, including expenses caused by actuarial revaluation and discount rate changes. We subtract the cash payments made by DOL on behalf of workers' compensation obligations, which are relatively predictable, from total workers' compensation expense in order to determine the non-cash component of workers' compensation expense, a non-GAAP financial measure.

The following table presents the components of workers' compensation expense, including the cash payments made by DOL on behalf of workers' compensation obligations, for the three and six months ended March 31, 2020, and 2019:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
<i>(in millions)</i>				
Impact of discount rate changes	\$ 2,628	\$ 454	\$ 2,085	\$ 959
Actuarial revaluation of existing cases	(21)	(16)	(4)	52
Cost of new cases	369	312	672	602
Administrative fee	21	21	42	45
Total workers' compensation expense	\$ 2,997	\$ 771	\$ 2,795	\$ 1,658
Less cash payments made by DOL on behalf of workers' compensation obligations	(372)	(370)	(703)	(697)
Total workers' compensation non-cash expense	\$ 2,625	\$ 401	\$ 2,092	\$ 961

For the three months ended March 31, 2020, the portion of workers' compensation expense due to the impact of discount rate changes increased approximately \$2.2 billion, compared to the same period last year. For the six months ended March 31, 2020, the portion of workers' compensation expense due to the impact of discount rate changes increased approximately \$1.1 billion, compared to the same period last year. These changes are the result of changes in interest rates, outside of management's control.

The combined costs of new workers' compensation cases and revaluation of existing workers' compensation cases increased by \$52 million and \$14 million for the three and six months ended March 31, 2020, compared to the same periods last year. Changes in actuarial valuation are primarily attributable to the combined impacts of routine changes in actuarial estimation, the progression of existing cases and updated COLA assumptions, which are largely outside of management's control.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances with regard to those claims, compensation may be paid over many years. Federal law grants COLA rates to those claims, and these factors result in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

For additional information, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 11 - Workers' Compensation*.

Transportation

Transportation expenses include the costs we incur to transport mail and packages between our facilities, comprising highway, air and international transportation contracts, plus contract delivery services.

With the exception of contract delivery services, our costs to deliver mail and other products to delivery points are not included within *Transportation* but in *Compensation and benefits* for employee costs and in *Other operating expenses* for fuel, vehicle maintenance and repair, and other costs. Furthermore, transportation expenses do not include the compensation and related costs of employees responsible for transporting mail and packages between our facilities.

Variations in the volume and weight of mail transported, the mode of transportation used, and fuel prices have significant impact on transportation expenses.

The components of transportation expenses for the three and six months ended March 31, 2020, and 2019, are presented in the following table:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Highway	\$ 1,083	\$ 1,100	\$ 2,504	\$ 2,422
Air	773	744	1,576	1,585
International	141	143	302	311
Other	11	13	23	24
Total transportation expenses	\$ 2,008	\$ 2,000	\$ 4,405	\$ 4,342

Overall, transportation expenses increased 0.4% and 1.5% for the three and six months ended March 31, 2020, compared to the same periods last year.

Highway transportation expenses decreased 1.5% for the three months ended March 31, 2020, but increased 3.4% during the six months ended March 31, 2020, compared to the same periods in last year. For the three months ended March 31, 2020, highway contract expenses decreased, primarily due to a decrease in the number of miles driven and lower average diesel fuel prices. Highway transportation expenses increased for the six months ended March 31, 2020, due to a one-time adjustment whereby we recorded transportation expenses associated with embedded leases in certain of our transportation contracts during the first quarter of 2020.

Air transportation expenses increased 3.9% for the three months ended March 31, 2020, but decreased 0.6% during the six months ended March 31, 2020, compared to the same periods last year. For the three months ended March 31, 2020, air transportation expenses increased due to a significant shift from commercial to chartered air carriers. Commercial air carrier availability declined as a result of travel restrictions associated with the COVID-19 pandemic. For the six months ended March 31, 2020, the slight decrease was due primarily to lower volumes and lower average jet fuel prices.

International transportation expenses are related only to outbound services that allow customers in the U.S. to send mail and packages to other countries. For the three and six months ended March 31, 2020, international transportation expenses decreased 1.4% and 2.9% compared to the same periods last year, primarily due to decreases in our international service volumes.

Other Operating Expenses

Other operating expenses for the three and six months ended March 31, 2020, and 2019, are detailed in the following table:

(in millions)	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Supplies and services	\$ 701	\$ 663	\$ 1,469	\$ 1,412
Depreciation and amortization	423	424	854	841
Rent and utilities	443	438	914	864
Information technology and communications	230	192	410	408
Vehicle maintenance service	152	160	310	320
Rural carrier equipment maintenance	142	139	299	298
Fuel - delivery vehicles	129	106	260	248
Miscellaneous other	260	234	500	503
Total other operating expenses	\$ 2,480	\$ 2,356	\$ 5,016	\$ 4,894

Other operating expenses increased by 5.3% and 2.5% for the three and six months ended March 31, 2020, compared to the same periods in the prior year. While these aggregate changes were relatively immaterial, the period-over-period changes in the various components of other operating expenses for the three and six months ended March 31, 2020, were also relatively immaterial.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity consists of unrestricted cash and cash equivalents plus available borrowing capacity. As of March 31, 2020, and September 30, 2019, we held unrestricted cash and cash equivalents of \$9.0 billion and \$8.8 billion, respectively. During the six months ended March 31, 2020, our average daily liquidity balance under our statutory borrowing capacity was \$12.3 billion, representing approximately 56 days of liquidity available, which we define as liquidity divided by estimated average cash disbursements (including capital expenditures) per calendar day (365 days per year).

We face certain incremental risks caused by the COVID-19 pandemic, including the disruptions to our revenue and business operations, which will have a material effect on our financial condition and results of operations. Quarantines, shelter-in-place orders, and travel and logistics restrictions in connection with the outbreak have affected our retail and commercial customers, as well as suppliers and mail service providers. While the disruption is expected to be temporary, its depth and duration remain uncertain. A protracted loss in customer demand for our services is likely to have a material effect on our financial condition, results of operations and liquidity. The sudden drop in mail volumes, our most profitable revenue stream, is steep and may never fully recover to levels prior to the pandemic.

Notwithstanding our \$15.0 billion statutory debt limit, and \$3.0 billion annual limitation on new borrowing, the *CARES Act* allows us to borrow up to an additional \$10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. However, we have no assurance that the U.S. Treasury will agree to provide such financing upon favorable terms.

We estimate that the COVID-19 pandemic may increase our net operating loss by more than \$22.0 billion over the next eighteen months, threatening our ability to operate. Assuming we elect to borrow the \$10.0 billion from the U.S. Treasury as provided by the *CARES Act*, and choose to prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, if necessary and as has been done in the past, we expect that we will have sufficient liquidity to continue to operate through at least May 2021.

Although our liquidity has generally increased since 2012, it remains insufficient to support an organization with approximately \$80 billion in annual operating expenses, to make capital investments necessary for continuity of operations and to prepare for unexpected contingencies. Much of this liquidity improvement as of March 31, 2020, would not have occurred but for the temporary exigent surcharge, which allowed us to collect a total of \$4.6 billion in incremental revenue between January 2014 and April 2016.

Aside from the temporary exigent surcharge, we defaulted on \$33.9 billion of statutorily specified PSRHBF prefunding payments from 2012 through 2016, and did not make the approximately \$495 million in payments due for FERS unfunded liabilities between 2014 and 2016, or the approximately \$21.0 billion in payments due for PSRHBF normal cost and amortization on PSRHBF, CSRS and FERS unfunded liabilities between 2017 and 2019, in order to preserve liquidity, and to ensure that our ability to fulfill our primary universal service mission was not placed at undue risk. The combination of these defaults and non-payments, plus the incremental revenue associated with the temporary exigent surcharge referred to above, and the increased revenue from growth in our Shipping and Packages business, are the primary reasons why our cash and available liquidity has improved.

CASH FLOW ANALYSIS

Operating Activities

Cash provided by operating activities decreased \$141 million for the six months ended March 31, 2020, compared to the same period last year, largely the result of timing differences in cash payments for compensation and benefits.

Investing Activities

We invested \$741 million in the purchase of property and equipment for the six months ended March 31, 2020, which is an increase of \$82 million, or 12.4%, compared to the same period last year. As of the date of this report, the amount of our full year projected capital expenditures is approximately \$1.8 billion, which is approximately \$500 million less than our original forecast of \$2.3 billion. We anticipate that this may further decline if equipment and information technology investments and other programs are deferred to future years as a result of COVID-19.

Financing Activities

Except as described otherwise in this quarterly report, the nature and amounts of our payment obligations under our debt, capital and operating lease agreements, purchase commitments and other liabilities as of March 31, 2020, have not materially changed from those described in our Annual Report.

As of both March 31, 2020, and September 30, 2019, the aggregate principal balance of our outstanding debt was \$11.0 billion, consisting of a combination of fixed-rate note and floating-rate notes, all of which we consider long-term debt.

DEBT

As of March 31, 2020, our statutory borrowing capacity was \$4.0 billion, of which \$1.0 billion would require repayment by September 30, 2020, to comply with our annual debt increase limits. Furthermore, notwithstanding our \$15.0 billion statutory debt limit, and the \$3.0 billion annual limitation on new borrowing, the CARES Act allows us to borrow up to an additional \$10.0 billion in financing from the U.S. Treasury to fund operating expenses. The U.S. Treasury may lend up to this amount at our request, upon terms and conditions mutually agreed upon. However, we have no assurance that the U.S. Treasury will agree to provide such financing upon favorable terms.

In 1974, we began issuing debt through individual debt agreements to the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury. In 1999, we entered into a Note Purchase Agreement ("NPA") with the FFB to establish standardized procedures for issuing debt. Under the NPA, we were able to issue a series of notes with established terms and conditions by providing two days prior notice. Also under the NPA, we could make borrowings against two annually renewable revolving credit line facilities. These note arrangements and credit line facilities provided the flexibility to borrow short or long-term, using floating or fixed-rate instruments.

The NPA was extended each year through September 30, 2018, and in shorter increments between that date and August 31, 2019, at which time the NPA expired. This expiration did not affect the terms of any of our outstanding debt as of March 31, 2020, all of which was issued under the NPA.

If we are unable to renew or replace the NPA with the FFB, we have no assurance that we could obtain alternative debt financing on comparable terms. However, we believe that we will be able to maintain adequate liquidity to fund our operations through at least May 2021, using new financing arrangements, as necessary and allowed by statute, including the \$10.0 billion financing available provided by the CARES Act, and by choosing to prioritize payments to the FFB, employees and suppliers ahead of some payments to fund retirement and retiree health benefits, if necessary and as has been done in the past.

On April 3, 2020, we drew \$3.4 billion on a revolving credit facility with the FFB that survived the expiration of the NPA. In order to comply with the annual net increase limit, we must repay \$400 million from this credit facility by September 30, 2020. Given that the credit facility has a maximum term of up to one year, we must repay or refinance any outstanding balance of the credit facility by April 2, 2021. The credit facility's interest rate was determined by the U.S. Treasury based on the market rates of similar instruments as of the day of the funding request.

LIQUIDITY OUTLOOK

We are constrained by laws and regulations, including the PAEA, which restrict revenue sources and mandates certain expenses. Statutorily mandated expenses include amortization payments to provide full funding of retirement benefits under the CSRS and the FERS, as well as FERS normal costs, described in greater detail in *Note 9 - Retirement Plans*. Additionally, the PAEA established the PSRHB and mandated certain obligations for paying normal costs, the present value of the estimated retiree health benefits attributable to active employees' current year of service, and amortization payments for full prefunding of retiree health benefits. These prefunding obligations, described in greater detail in *Note 10 - Health Benefits Plans*, are unlike expenses imposed on most other federal entities or private-sector businesses that offer such benefits.

We continue to face challenges from the ongoing migration of mail to electronic alternatives, and we are legally limited under current law in how we can price our products and streamline our legacy business model. Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure and update our delivery fleet in order to continue to meet our primary statutory obligation to provide prompt, reliable and efficient postal services to the nation.

Absent legislative and regulatory change, we project continuing annual net losses in the future. As a result of these losses and our liquidity concerns, we may not have sufficient cash balances to meet all of our existing legal obligations and make all of the critical investments in our infrastructure that are necessary for operational continuity and that have been deferred in recent years.

In the event that circumstances leave us with insufficient liquidity to continue operating, we may deem it necessary to implement additional contingency plans to ensure that our primary mission is fulfilled and that mail deliveries continue. These measures may require us to prioritize payments to the FFB, our employees and suppliers ahead of some payments to fund retirement and retiree health benefits, as we have done in the past.

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue long-term financial sustainability by focusing on the following items:

1. Continued efforts to control costs and drive efficiencies, innovate to keep mail relevant and generate increased revenue;
2. Postal Service reform legislation that addresses our overall cost structure and enhances our revenue-generating opportunities; and
3. Favorable outcome of the PRC's ten-year review (discussed below), which would allow additional pricing flexibility.

Although we continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, we have no assurances that our requests will result in meaningful reform in the foreseeable future.

PRC Ten-year Review

In December 2016, the PRC initiated its ten-year review of the system for regulating rates and classes for Market-Dominant products as required by the PAEA. The purpose of the ten-year review was to determine if the system for regulating such rates and classes has achieved the objectives Congress established in the PAEA. As part of this review, the PRC evaluated the CPI-U price cap for our Market-Dominant services.

On December 1, 2017, the PRC announced its initial decision in connection with its ten-year review. The PRC concluded that the rates system has not achieved its objectives and needs to be changed, primarily because it does not enable us to achieve our mission of providing prompt, reliable, and efficient universal postal services to the American people in a financially sustainable manner. The PRC's proposed changes to the system do not include the elimination of the CPI-U price cap; however, its proposal does provide for some additional pricing authority within a price cap system.

On December 5, 2019, the PRC announced a revised decision in connection with its ten-year review. The PRC's proposed changes to the system still do not include the elimination of the CPI-U price cap. Moreover, while the revised proposal does include adjustment factors as we had requested to provide more flexibility for the regulatory system to better deal with future exogenous changes, the new proposal no longer includes any "true-up" authority to provide us with a reasonable opportunity to cover all of our costs. We continue to assert that the price cap should be eliminated, and that if the PRC insists on maintaining a price cap that the system must include both a resetting of rates so they are compensable, as well as adjustment factors to ensure the system is sufficiently flexible going forward.

The PRC was expected to issue a final rule after considering the comments and reply comments of any interested stakeholders, which were due no later than February 3, 2020, and March 4, 2020, respectively. As of the date of this report, the PRC has not issued a final rule. Additional information regarding the ten-year review may be found at the PRC website: <https://www.prc.gov/press-releases/prc-revises-proposals-second-rulemaking-modify-rate-system-classes-market-dominant>.

2020 and Beyond

We anticipate that given our ongoing liquidity concerns, and without legislative action and regulatory reform, we may not be able to pay all legally required obligations and also invest in much-needed capital expenditures in 2020 and future years that are necessary to ensure our ability to fulfill our primary mission. Furthermore, we believe that continuing productivity improvements alone will not be sufficient to address the challenges presented by declining Market-Dominant volume and revenue, and any future growth in operating revenue would unlikely keep pace with increased costs.

Legally Required Obligations

In addition to our previously discussed obligations for unfunded retirement and retiree health benefits of approximately \$8.0 billion due on September 30, 2020, we expect to pay the DOL approximately \$1.3 billion in October 2020, representing the workers' compensation claims paid by DOL for the chargeback year July 1, 2019, to June 30, 2020, plus the estimated administrative fee.

The *CARES Act* offers certain employers the ability to defer payment of the employer's share of the Social Security payroll tax on wages incurred from March 27, 2020, through December 31, 2020. In accordance with this provision, we began deferring these payments in April 2020, and intend to continue the deferral for the remainder of calendar year 2020 for an estimated total deferral amount of approximately \$1.6 billion. One half of these deferred payments would be due by December 31, 2021, and the other half by December 31, 2022.

Capital Investments

We currently estimate that our required cash outlays for capital investments necessary to ensure that we can continue to perform our universal service obligation will amount to approximately \$1.1 billion for the remainder of 2020, and an additional \$11.0 billion for years 2021 through 2024, as we plan to invest in a new fleet of delivery vehicles and other appropriate capital assets. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed to enable us to fully fund such necessary capital investments.

Mitigating Circumstances

We continue to pursue strategies within our control to increase operational efficiency and improve liquidity. We have managed capital in recent years by spending only what we believed was essential to maintain our existing facilities and service levels, and to increase efficiencies. However, continued increases in capital investment are necessary to upgrade our facilities, fleet of vehicles and processing equipment in order to remain operationally viable. Aggressive management of the business operations, as well as legislative and regulatory reforms that will enable us to increase revenue and reduce costs, will all be necessary to restore our financial health.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual total revenue in 2019 of approximately \$71 billion, a financially sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from us and the many businesses that provide the printing and mailing services that we support. Disruption of the mail would cause undue hardship to businesses and consumers as it would significantly inhibit the remittance of payments through the mail, and in the event of a cash shortfall, the U.S. government would likely prevent us from significantly curtailing or ceasing operations. We continue to inform the executive branch, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face and the legislative and regulatory changes that are required to restore our financial stability.

LEGISLATIVE, REGULATORY AND RELATED MATTERS

TASK FORCE ON THE UNITED STATES POSTAL SYSTEM

As previously reported, on April 12, 2018, the President issued Executive Order 13829 to establish a *Task Force on the United States Postal Service* ("Task Force"), to be chaired by the Secretary of the Treasury, as Secretary and as Chairman of the FFB, or his designee. In accordance with the Executive Order, the Task Force conducted an evaluation of our operations and finances, and submitted its report to the President in August 2018.

There has been no further congressional activity related to the President's Task Force report on the Postal Service subsequent to the March 12, 2019, Senate Homeland Security and Governmental Affairs Committee hearing titled, "*A Path to Sustainability: Recommendations from the President's Task Force on the United States Postal Service.*"

LEGISLATIVE UPDATE

As a self-funded independent establishment of the executive branch, our business model and operations are significantly influenced by congressional oversight and legislation. Additionally, Congress intended for us to be governed by an eleven-member Board of Governors ("Board") which generally consists of our Postmaster General, Deputy Postmaster General and nine independent governors ("Governors"). The President appoints the Governors with the advice and consent of the Senate. We have five Senate-confirmed Governors currently in office.

Legislation

Two bills that were signed into law by the President, and one bill that was introduced in response to the COVID-19 pandemic have financial implications for us.

On March 18, 2020, the President signed the *Families First Coronavirus Response Act*, enacted as Public Law 116-127, which provides new paid sick leave that may be used by an employee in COVID-19 situations for themselves, or to care for sick family members, as well as Family and Medical Leave Act-protected unpaid and paid leave if a school/child care is closed.

On March 27, 2020, the President signed the *CARES Act*, enacted as Public Law 116-136, which allows the Postal Service to borrow up to an additional \$10.0 billion in financing from the U.S. Treasury to fund operating expenses. The law stipulates that the Secretary of Treasury may lend up to this amount at the request of the Postal Service, upon terms and conditions mutually agreed upon by the Secretary and the Postal Service.

H.R. 6425, the *Protect our Post Offices Act*, introduced on March 31, 2020, would appropriate \$25.0 billion for payment to the Postal Service Fund for revenue forgone due to the COVID-19 pandemic. The bill was referred to the House Committees on Appropriations and Budget.

Postal Service Reform

The 116th Congress has not introduced any major Postal Service reform bills to date. Legislative and regulatory reforms remain critical for us to meet the needs of the American public, and we will continue to work with Congress and all of our stakeholders to enact Postal Service reform legislation.

Board of Governors Nominations

On March 2, 2020, the President submitted to the Senate the nomination of Donald Lee Moak to serve on the Board for a term expiring December 8, 2022. The nomination was referred to the Senate Homeland Security and Governmental Affairs Committee for its consideration. The nomination of William Zollars to serve for a term expiring December 8, 2022, is also pending the committee's consideration.

FAIR VALUE MEASUREMENTS

As required by authoritative accounting literature, certain fair value disclosures for the periods ended March 31, 2020, and September 30, 2019, are discussed in *Item 1. Financial Statements, Notes to Unaudited Financial Statements*. We did not recognize gains as a result of valuation measurements during the three and six months ended March 31, 2020. All recognized losses have been incorporated into our financial statements as of March 31, 2020. See *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 13 - Fair Value Measurement*.

RELATED PARTY TRANSACTIONS

As disclosed throughout this quarterly report, we have significant transactions with other U.S. government entities, which are considered related parties for reporting purposes. For a more detailed description, see *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 5 - Related Parties*.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may be used.

We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Critical Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of the Annual Report. Management normally discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of the Board.

RECENT ACCOUNTING STANDARDS

See *Item 1. Financial Statements, Notes to Unaudited Financial Statements, Note 2 - Recent Accounting Pronouncements*, for a description of recently announced accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business we are exposed to market risks from changes in commodity prices, certain foreign currency exchange rates and interest rates. Our commodity price risk consists primarily of exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and fuel for heating facilities. We have foreign currency risk related to the settlement of terminal dues and transit fees with foreign postal administrations for international mail.

We have not used derivative commodity or financial instruments to manage market risk related to commodities, foreign currency exchange or interest rate fluctuations for debt instruments. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

We also have provisions in our debt agreements that allow us to prepay our \$11.0 billion debt at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates in the U.S. Treasury market at the time of repayment.

See *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* in the Annual Report for additional information.

ITEM 4. CONTROLS AND PROCEDURES

Management is responsible for the preparation, integrity and fair presentation of our financial statements.

DISCLOSURE CONTROLS

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized, and reported within the time frames specified by PAEA, and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and the Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of March 31, 2020. Based upon and as of the date of the evaluation, the Postmaster General and the Chief Financial Officer concluded that our disclosure controls and procedures were effective.

INTERNAL CONTROLS

We have made no changes in our internal control over financial reporting during the three months ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting us, please refer to *Item 1. Financial Statements, Notes to Unaudited Financial Statements* and *Note 8 - Commitments and Contingencies*, as well as our Annual Report.

ITEM 1A. RISK FACTORS

The following risk factor supplements *Item 1A. Risk Factors* of our Annual Report.

The occurrence of a global pandemic or other adverse public health developments could have a material and adverse effect on our business operations, financial condition and results of operations.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, which has since spread throughout the U.S. Given our mandate to provide universal postal services to the nation, we provide an essential service and have continued to process and deliver mail and packages during the pandemic.

We expect the COVID-19 pandemic to have a material effect on our financial condition, results of operations and liquidity. Quarantines, shelter-in-place orders and travel and logistics restrictions in connection with the outbreak have affected retail and commercial customers, as well as suppliers and mail service providers. The Postal Service relies on the sale of postal products and services to fund its operations, and these sales have declined significantly as a result of the pandemic. The sudden drop in mail volumes, the Postal Service's most profitable revenue stream, has been significant and may never fully recover to levels prior to the pandemic.

ITEM 5. OTHER INFORMATION

DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS

As previously reported in a Current Report on Form 8-K filed with the PRC on May 4, 2020, David C. Williams announced his resignation from the Board effective April 30, 2020. Governor Williams's term had expired on December 8, 2019, and he had continued to serve as a Governor in a holdover year.

APPOINTMENT OF CERTAIN OFFICERS

On May 6, 2020, the Governors announced the appointment of Louis DeJoy, age 62, as the 75th Postmaster General and Chief Executive Officer of the Postal Service, effective June 15, 2020. Mr. DeJoy succeeds Megan J. Brennan as the 74th Postmaster General and Chief Executive Officer. As previously reported in Current Reports on Form 8-K filed with the PRC on October 18, 2019, and January 6, 2020, respectively, Ms. Brennan informed the Governors on October 16, 2019, of her plan to retire effective January 31, 2020, and subsequent delay of her retirement in order to ensure the Governors had adequate time to conduct due diligence, to select the next Postmaster General, and to ensure a seamless transition.

Mr. DeJoy is an accomplished business executive with more than 35 years of experience. He is currently President of LDJ Global Strategies, LLC, a strategic real estate investment and consulting company based in Greensboro, North Carolina. Mr. DeJoy previously served as CEO of XPO Logistics' ("XPO") supply chain business in the Americas before retiring to serve in a strategic role on XPO's Board of Directors. Prior to that, he served as Chairman and CEO of New Breed Logistics, a leading provider of supply chain logistics, program management and transportation support. Mr. DeJoy is a member of the Board of Trustees for Elon University, where he serves as chair of the Business and Finance Committee and is a member of the Investment Committee. He also serves on the Board of Trustees for the Piedmont Triad Charitable Foundation (Wyndham Championship), The Fund for American Studies in Washington, DC, and the Piedmont Triad Partnership.

Mr. DeJoy will be entitled to an annual gross salary commensurate with the statutory cap for the position on the date the appointment is effective (currently \$303,960), paid in biweekly installments. Mr. DeJoy will be eligible for all benefits provided to Postal Service officers pursuant to standard Postal Service policy and practice. These benefits include annual leave, sick leave, life and health insurance and participation in the TSP and FERS.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the <i>Securities and Exchange Act of 1934</i> , as Adopted Pursuant to Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the <i>Securities and Exchange Act of 1934</i> , as Adopted Pursuant to Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
32.1	Certification of Principal Executive Officer Pursuant to <i>18 U.S.C. Section 1350</i> , as Adopted Pursuant to Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .
32.2	Certification of Principal Financial Officer Pursuant to <i>18 U.S.C. Section 1350</i> , as Adopted Pursuant to Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .

Signatures

Pursuant to the requirements of the *Postal Accountability and Enhancement Act of 2006*, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/Megan J. Brennan

Megan J. Brennan
Postmaster General and Chief Executive Officer

Date: May 7, 2020

/s/Joseph Corbett

Joseph Corbett
Chief Financial Officer and Executive Vice
President

Date: May 7, 2020

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF
1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF
2002.

I, Megan J. Brennan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service ("Postal Service");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and
5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: May 7, 2020

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF
1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF
2002.

I, Joseph Corbett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service ("Postal Service");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and
5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's independent registered accounting firm and the Audit and Finance Committee of the Postal Service's Board of Governors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have significant role in the Postal Service's internal control over financial reporting.

Date: May 7, 2020

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service ("Postal Service") on Form 10-Q for the period ended March 31, 2020, (the "Report"), I, Megan J. Brennan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: May 7, 2020

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.

In connection with the Quarterly Report of the United States Postal Service ("Postal Service") on Form 10-Q for the period ended March 31, 2020, (the "Report"), I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002* that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the *Securities Exchange Act of 1934*; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Dated: May 7, 2020

/s/Joseph Corbett

Joseph Corbett

Chief Financial Officer and Executive Vice President